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**NEWS RELEASE**

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FOR RELEASE May 19, 2009

Auditor of State David A. Vaudt today released a report on the Iowa Industrial New Jobs Training Program (NJTP) coordinated by the Department of Economic Development and administered by the 15 community colleges. The review of certain NJTP activity for the period July 1, 2000 through June 30, 2008 was conducted in accordance with Chapter 11 of the *Code of Iowa* to determine whether the:

- The Department of Economic Development (DED) appropriately coordinated and monitored NJTP,
- The community colleges appropriately administered and monitored funding amounts received from new jobs credits from withholdings and incremental property taxes and activity under NJTP agreements in compliance with relevant laws and administrative rules and
- The Department of Revenue (Revenue) sufficiently tracked and monitored the appropriateness and accuracy of new jobs withholding credits.

The purpose of NJTP is to provide incentive to businesses considering locating or expanding operations in the State by sharing in the cost of training for employees in new jobs created by projects under agreements with community colleges. The goal of training includes skill development and enhancement for the State's workforce.

Community colleges are authorized by section 260E of the *Code of Iowa* to sell training certificates to fund services under NJTP agreements with participating businesses. Proceeds from training certificates sold by community colleges are primarily used for reimbursement of participating businesses' training costs, community colleges' administrative costs and DED administrative fees. Payments of principal and interest on training certificates by community colleges are funded primarily from amounts of new jobs withholding credits and supplemental new jobs withholding credits remitted by participating businesses and incremental property tax remitted by counties where participating businesses are located, as necessary under NJTP agreements.

Vaudt reported community colleges:

- Received over \$411 million of withholdings which would otherwise have been deposited to the State's General Fund as allowed by the *Code of Iowa* to fund repayments on training certificates issued for NJTP since inception on July 1, 1983. During the most recent 5 fiscal years about \$68.4 million of withholding credits were submitted to community colleges by participating businesses rather than deposited to the State's General Fund, based on information reported by community colleges.
- Issued over \$38.5 million of training certificates to fund 228 NJTP projects which did not meet the legislative intent of the program since no new jobs were created for those completed projects, according to DED's database. Of the 1,182 NJTP projects completed by June 30,

2008, 228 projects, or 19.3 percent, were reported by community colleges as having no new jobs created by participating businesses rather than the 15,627 jobs planned. However, based on testing, the information recorded in the database is not reliable. It is probable some jobs were created. Based on information from certain community colleges, some of the businesses reporting no new jobs either closed or filed for bankruptcy.

- Sometimes allowed participating businesses to slip into arrears on withholding tax payments and to subsequently “catch up” on the payments by remitting higher amounts than allowed by the *Code of Iowa*, which makes it very difficult for Revenue to effectively track and monitor the appropriateness of credits claimed.
- Inconsistently completed required monitoring each fiscal year to determine whether participating businesses are complying with NJTP requirements.
- Allowed participating businesses to provide training which is not specific and exclusive to the new jobs created by projects associated with several NJTP agreements.

Vaudt also reported DED does not:

- Monitor whether community colleges comply with NJTP requirements contained in the *Code of Iowa*, administrative rules and training agreements.
- Verify appropriateness and accuracy of information reported by community colleges.
- Report the actual number of new jobs created for completed projects, which is necessary for calculating and evaluating NJTP success.

In addition, Vaudt reported significant issues still need to be resolved to allow Revenue to continue improving monitoring and tracking of new jobs withholding credits claimed by participating businesses. For example, community colleges’ practice of allowing businesses to slip into arrears on and later “catch up” on withholding tax payments remitted needs to be resolved and not allowed.

Vaudt recommended DED:

- Take a more active role in monitoring community colleges’ NJTP activity.
- Verify information reported by community colleges each fiscal year.
- Improve reporting to allow better assessment of whether legislative intent is met.

Vaudt also recommended community colleges:

- Improve monitoring of participating businesses to ensure compliance with NJTP requirements and success of projects.
- Not allow participating businesses to slip into arrears and later catch up on withholding tax payments.
- Only agree to and reimburse participating businesses for training which is specifically relevant and necessary for employees in the new jobs created.

In addition, Vaudt recommended Revenue:

- Continue improving procedures to track and monitor new jobs withholding credits claimed and reported.

Vaudt also identified several items which should be considered by the General Assembly, including whether a provision to help ensure new jobs promised by participating businesses are actually created and retained should be established in the *Code of Iowa*, and whether the community colleges should be allowed to use accumulated interest earned on closed projects for other purposes.

A copy of the report is available for review in the Office of Auditor of State and on the Auditor of State’s web site at <http://auditor.iowa.gov/specials/specials.htm>.

**DEPARTMENTS OF ECONOMIC DEVELOPMENT,  
EDUCATION AND REVENUE AND THE COMMUNITY COLLEGES  
IOWA INDUSTRIAL NEW JOBS TRAINING PROGRAM**

**FOR THE PERIOD  
JULY 1, 2000 THROUGH JUNE 30, 2008**

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To the Governor, Members of the General Assembly, Members of the Iowa Economic Development Board, Directors of the Departments of Economic Development, Education and Revenue and the Presidents of the Boards of Directors of Community Colleges:

In accordance with Chapter 11 of the *Code of Iowa*, we have conducted a review of the Iowa Industrial New Jobs Training Program (NJTP) coordinated by the Department of Economic Development (DED) and administered by the 15 community colleges. We reviewed certain NJTP activity for the period July 1, 2000 through June 30, 2008, including compliance with requirements of the *Code of Iowa* and administrative rules, financial records and monitoring completed by selected community colleges, DED and the Department of Revenue (Revenue). We also determined whether funds used for NJTP costs were appropriately calculated, remitted and recorded in accordance with applicable *Code of Iowa* and administrative rule requirements.

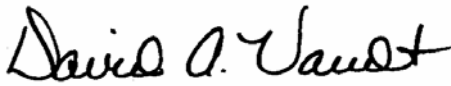
In conducting our review of NJTP, we performed the following procedures:

1. Interviewed various personnel and reviewed related information to obtain an understanding of the administration and monitoring performed by DED, Revenue and community colleges.
2. Reviewed and analyzed financial records, reports and monitoring completed by selected community colleges, DED and Revenue to determine compliance with significant laws and administrative rules, as appropriate for DED, Revenue and community colleges.
3. Reviewed certain activity related to projects under NJTP agreements entered into by selected community colleges with participating businesses. Specifically, we:
  - a. Examined certain payroll records submitted to community colleges to determine whether withholding tax amounts remitted were accurately and sufficiently supported. In addition, we determined if withholding tax remittances were accurately recorded to appropriate projects by the community colleges.
  - b. Compared withholding tax credit information reported in financial records of community colleges to withholding reports submitted to Revenue to determine whether all withholding tax payments received by community colleges from participating businesses were accurately reported to Revenue.
  - c. Compared gross payroll information reported by participating businesses to Iowa Workforce Development (IWD) to information maintained at the selected community colleges to determine if the participating businesses submitted the appropriate withholding tax amounts.

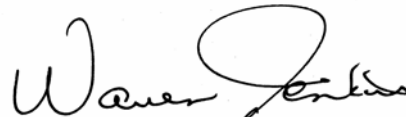
- d. Confirmed incremental property tax revenues remitted to the selected community colleges by counties in which the participating businesses and community colleges are located to determine whether incremental property tax revenues were accurately recorded to appropriate projects by the community colleges.
4. Reviewed and analyzed certain data maintained in the NJTP database by DED.
5. Reviewed and compiled NJTP information reported in the fiscal year 2006 financial and compliance audit reports of the 15 community colleges and requested additional information as necessary when not available from the audit reports. Similar information for fiscal year 2008 was reviewed as reported by community colleges for inclusion in the NJTP database.

Based on these procedures, we have developed certain recommendations and other relevant information we believe should be considered by the Departments of Economic Development, Education and Revenue, the Boards of Directors of the 15 community colleges, the Members of the Iowa Economic Development Board, the Governor and the General Assembly.

We extend our appreciation to the personnel of the community colleges and the Departments of Economic Development and Revenue for the courtesy, cooperation and assistance provided to us during this review.



DAVID A. VAUDT, CPA  
Auditor of State



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

December 10, 2008

## Executive Summary

**Background information** - The Iowa Industrial New Jobs Training Program (NJTP) became effective July 1, 1983. Authorizing legislation is found in Chapter 260E of the *Code of Iowa*. The purpose of NJTP is to provide incentive to businesses considering locating or expanding operations in the State by sharing in the cost of training employees in newly created jobs. Also, NJTP promotes skill development and enhancement for the State's workforce.

NJTP is coordinated by the Department of Economic Development (DED) in consultation with the Department of Education (DE). However, the 15 community colleges in Iowa are responsible for administering NJTP. In accordance with the *Code of Iowa*, DED developed administrative rules which must be used by the community colleges to administer projects established by NJTP agreements. The community colleges report NJTP information to DED each fiscal year which DED maintains in a database. According to DED staff we spoke with, information in the database from prior to fiscal year 1994 is not as accurate and complete as more recent information.

The community colleges enter into an agreement with an eligible business to establish a single project or multiple projects to provide training to employees in new jobs created by the business. The agreements are to specify the training to be provided, the number of new jobs planned and the sources from which the certificates will be repaid.

**Funding for NJTP** - To provide funds for the cost of the training programs, the community colleges are authorized by the *Code* to sell training certificates. Approximately \$758.5 million of training certificates have been sold by the community colleges since inception of NJTP through June 30, 2008. The funds have been used for the following purposes:

- (1) Training costs - Training costs may be incurred by the community college and/or the participating businesses for the employees filling the new jobs associated with the NJTP agreements. The training costs may include:
  - adult basic education and job-related instruction,
  - vocational and skill-assessment services and testing,
  - costs associated with training facilities, equipment, materials and supplies and
  - on-the-job training.
- (2) Administrative fees - To fund administrative services provided by the community colleges and DED, portions of the proceeds from the training certificates sold are distributed to the community colleges and DED.

**Community colleges** - The Division of Community Colleges and Workforce Preparation of the DE is responsible for calculating an administrative allowance rate for community colleges each fiscal year. DE submits the proposed administrative allowance rate to DED for approval each fiscal year and DED communicates the rate to community colleges. Community colleges may use a portion of the proceeds from each training certificate sold, up to a maximum of the approved rate for appropriate NJTP administrative costs. The community colleges' combined total administrative costs reported to DED for NJTP agreements administered since inception through fiscal year 2008 is approximately \$93.5 million. During the most recent 5 fiscal years, the total combined administrative costs for the community colleges is approximately \$38.5 million, or approximately 41.2% of the total since inception.

**DED** - As authorized by section 15.251 of the *Code*, DED charges the community colleges an administrative fee of 1% of the gross amount of training certificates sold each fiscal

year in addition to the administrative fees retained by the community colleges. The total DED administrative fees charged to community colleges should be approximately \$7.6 million based on 1% of the \$758.5 million of training certificates sold since inception, but the amount reported in the NJTP database only includes approximately \$7.4 million. The variance is a result of inconsistencies and errors made by the community colleges in reporting the administrative fees.

During the most recent 5 fiscal years, the total DED administrative fees charged to community colleges is approximately \$2.6 million, or approximately 34.2% of the total since inception.

- (3) Issuance costs – Proceeds received from selling training certificates may be used by community colleges to pay for costs such as legal fees and underwriter expenses incurred by the community colleges for issuance of training certificates.
- (4) Reserves – A portion of the training certificate proceeds are set aside by community colleges for a “reserve”, which may be used to make principal and interest payments on certificates in the initial year of the project before any revenue is received. Since inception through fiscal year 2008, a total of approximately \$37.8 million has been set aside in the reserves, based on amounts reported by community colleges to DED for inclusion in the NJTP database.

**Repayment of training certificates** – Payments of principal and interest on money borrowed by the community college to pay the cost of new jobs training programs for a particular participating business (the training certificates) is payable by the community colleges from the sources identified in the agreement(s) with the business. The sources may include any of the following sources or a combination of them:

- (1) New jobs withholding credits – Payments made by the participating businesses to the community colleges for Iowa income withholding tax from new jobs resulting from the businesses’ projects are the primary repayment source. Rather than paying all the Iowa withholding tax to the State for those wages, the businesses pay an amount equal to 1.5% of the gross wages paid to the employees in the new jobs to the community colleges. These payments are commonly referred to as new jobs withholding credits.

Based on amounts reported to DED by community colleges, over \$411 million of withholding credits have been awarded to participating businesses for training projects established by NJTP agreements since inception of the program. The withholding tax has been submitted to community colleges for debt repayment rather than being remitted to Revenue for deposit to the State’s General Fund. During the most recent 5 fiscal years, approximately \$68.4 million of withholding credits were awarded to participating businesses.

As a result of the program and the subsequent new jobs withholding credits, participating businesses receive the benefit of training employees in new jobs created by projects associated with NJTP agreements at a reduced cost to participating businesses.

- (2) Incremental property tax – This amount includes any incremental property tax generated due to increases in the valuation of the participating business’ property where new jobs are created as a result of the project. Over \$69.1 million of incremental property tax has been provided to community colleges for payment of training certificates and forgone by local governments since inception. However, only \$29,568 of incremental property tax has been provided to community colleges for 1 project at Kirkwood Community College (KCC) during the most recent 5 fiscal years. The practice of assessing incremental property tax for repayment of training certificates has decreased dramatically in recent years, based on information included in the NJTP database.



- (3) Reserves – As previously stated, a portion of the training certificate proceeds are set aside by community colleges for a “reserve”, which may be used to make principal and interest payments on certificates in the initial year of the project before any withholding or property tax is received.
- (4) Supplemental new jobs withholding credits – These additional 1.5% credits are authorized by section 15A.7 of the *Code* for additional projects and may be used only when approved by the community colleges’ board of directors and included in the NJTP final approved agreement. The final approved agreement must include a provision for the additional 1.5% supplemental withholding credit which provides additional funding for NJTP. Supplemental new jobs withholding credits are based on an additional 1.5% of gross wages for each employee participating in a new job created and must be collected, accounted for and pledged by community colleges in the same manner as new jobs withholding credits established under *Code* Chapter 260E. When supplemental new jobs withholding credits are included in NJTP agreements, the total withholding credit is 3%, including the 1.5% new jobs withholding credit and the 1.5% supplemental new jobs withholding credit.

**Transfers from the State’s General Fund** - As stated previously, 1.5%, or 3% if the supplemental new jobs withholding credits are included in approved NJTP agreements, of the gross wages paid to the employees in the new jobs are sent to the community colleges to pay the training certificates rather than being submitted to Revenue as income tax. In addition to the forgone income tax from employees wages, Revenue transferred up to \$4 million per year from the State’s General Fund to the Workforce Development Fund during fiscal years 2002 through 2008. During fiscal years 2000 and 2001, a maximum of \$9 million could be transferred by Revenue from the State’s General Fund to the Workforce Development Fund.

During fiscal years 2000 through 2008, Revenue transferred approximately \$43.1 million from the State’s General Fund to the Workforce Development Fund. Amounts since inception through fiscal year 1999 were not readily available.

Also, funds received by DED from the 1% DED administrative fee received from community colleges but not used are allowed to be transferred to the Workforce Development Fund to be used by DED and community colleges for administration of the jobs training program under *Code* Chapter 260F. The fund is established in the Office of Treasurer of State under the control of DED as required by section 15.342A of the *Code*. A total of approximately \$3.4 million in excess administrative fees received by DED from community colleges has been transferred by DED to the Workforce Development Fund. The fund’s balance at June 30, 2008 was approximately \$3.6 million.

**Monitoring of NJTP** – Monitoring of NJTP occurs on various levels, including:

- (1) Community colleges’ monitoring and reporting - Community colleges are required by NJTP administrative rules to establish a monitoring system which includes, at a minimum, an annual documented review of participating businesses’ compliance with NJTP legal requirements, administrative rules and agreements. Also, community colleges are required by *Code* section 403.21 to report certain NJTP activity to DED each fiscal year. In addition, community colleges must promptly notify DED of defaults identified and report amounts of all new jobs withholding credits remitted by participating businesses to Revenue.
- (2) DED’s monitoring and reporting – DED relies on the community colleges to appropriately administer and monitor activity for each NJTP project. Administrative fees received from the training certificate proceeds are used by DED to coordinate NJTP, answer questions of community colleges, maintain a database of NJTP information and complete and submit an annual report to the Governor and Legislative Services Agency, as required by section 15.113 of the *Code*. The annual report includes a summary and compilation of amounts of training certificates sold, planned number of new jobs and highest number of new jobs under NJTP projects.

- (3) Revenue's monitoring and reporting - Participating businesses must report new jobs withholding credits claimed to Revenue in their withholding returns. As a result of implementing an integrated withholding system in January 2005, Revenue representatives are able to more comprehensively and effectively track and monitor amounts of new jobs withholding credits and supplemental new jobs withholding credits.

Revenue representatives compare amounts of new jobs withholding credits claimed by participating businesses to amounts reported as received by community colleges to verify the appropriateness and accuracy of amounts. Also, Revenue verifies accuracy and reports total fiscal year amounts of new jobs withholding credits to the Revenue Estimating Conference of the State. According to Revenue's report for the March 2009 Revenue Estimating Conference, participating businesses claimed approximately \$29.6, \$40.5 and \$41.7 million of new jobs withholding credits, including supplemental new jobs withholding credits, for fiscal years 2006, 2007 and 2008, respectively.

**Findings** – As a result of our review, we identified several findings and recommendations to improve coordination, administration and monitoring of NJTP by DED, the community colleges and Revenue. Our findings are summarized in the following paragraphs:

#### Overall Findings

- Over \$411 million of withholding tax has been remitted by participating businesses to community colleges rather than being collected as revenue by the State since NJTP inception. The diversion of withholding tax is allowed by the *Code of Iowa* to fund repayment of training certificates issued.
- According to DED's database, over \$38.5 million of training certificates have been issued by community colleges for 228 completed NJTP projects that did not meet the legislative intent of the program since no new jobs were created for those projects. Of the 1,182 NJTP projects completed by June 30, 2008, 228 projects, or 19.3 percent, were reported by community colleges as having no new jobs created by participating businesses rather than the 15,627 jobs planned. However, based on testing performed, the information in the database is not reliable. It is probable some jobs were created. Based on information from certain colleges, some of the businesses reporting no new jobs either closed or filed for bankruptcy.
- DED has received approximately \$7.6 million of administrative fees from community colleges under NJTP since inception, but only uses a minimal portion of administrative fees collected to complete limited monitoring and reporting of NJTP activity. DED receives more than adequate funds that could be used to expand monitoring of NJTP activity and verify information reported by the community colleges. However, DED uses excess administrative fees for the job training program under Chapter 260F, which is allowed by the *Code*.

#### Community Colleges' Findings

- Community colleges do not consistently comply with monitoring system requirements established by NJTP administrative rules. The types and extent of monitoring procedures completed by community colleges varies from college to college. Monitoring procedures are not consistently completed by some community colleges to determine if participating businesses have complied with NJTP requirements contained in the *Code of Iowa*, administrative rules and agreements.
- We identified participating businesses which claimed new jobs withholding credits based on gross wages paid to 100% of their employees rather than only on the gross wages paid to employees in the new jobs created under NJTP projects.

- We also identified community colleges which allowed participating businesses to “catch up” on new jobs withholding tax payments. The *Code of Iowa* does not include provisions which allow participating businesses to be in arrears and catch up on amounts remitted for new jobs withholding tax.
- We are aware of 2 instances in which community colleges used guidance provided by an attorney as authorization to transfer accumulated interest for closed projects from the designated NJTP accounts maintained by the community college. In the first instance, a total of approximately \$1,350,000.00 was transferred from the community college’s NJTP account to its General Fund over the course of 4 fiscal years.

The second community college transferred approximately \$7,375,000.00 from the NJTP account to its Plant Fund during the fiscal year ended June 30, 2008 to help meet building and repair costs.

Because the debt for the certificates was paid with funds which would otherwise have been paid to the State’s General Fund or from local tax revenue rather than the accumulated interest and/or unused reserves, the effect of the transfers made by the community colleges is essentially the same as an additional appropriation funded by the State’s General Fund and local County.

- Training provided for several NJTP projects we reviewed at certain community colleges was not specific or exclusive to the new jobs created. The training should have been provided to employees by the participating businesses regardless of participation in NJTP. Some training included orientation, leadership development and occupational health and safety classes.

#### Department of Economic Development’s Findings

- DED does not monitor whether community colleges comply with NJTP requirements contained in the *Code of Iowa*, administrative rules and training agreements. Also, DED does not verify the appropriateness and accuracy of information reported by community colleges. We identified several errors in the NJTP database maintained by DED. We also identified other examples of data which does not appear reasonable or accurate.
- We determined administrative costs charged by 5 community colleges for 13 NJTP projects exceeded the approved administrative allowance rates by \$35,584 during fiscal years 2002 through 2006. The amounts charged ranged from .01% to 13.33% in excess of approved rates. DED is responsible for monitoring the amount of administrative costs charged by the community colleges but does not complete procedures necessary to identify instances of community colleges charging administrative costs in excess of amounts based on approved allowable rates.

#### Department of Revenue’s Findings

- As previously mentioned, the withholding tax submitted to community colleges to repay certificates rather than being deposited to the State’s General Fund is significant. The withholding tax is the primary source of funds used to repay the training certificates issued for NJTP projects. Prior to January 2005, Revenue completed only limited review and verification of new jobs withholding credits and did not compare information submitted by participating businesses in withholding returns to information submitted by the community colleges. As mentioned previously, Revenue has improved review and verification of new jobs withholding credits since implementing an integrated withholding system in January 2005. The system allows more comprehensive and effective tracking and monitoring of amounts of new jobs withholding credits and supplemental new jobs withholding credits.

**Items for further consideration** – In addition to the findings and recommendations, our report identified several items which should be considered by the General Assembly to help ensure NJTP is administered in a manner which is as effective as possible. The General Assembly should consider:

- Whether a provision should be established in the *Code of Iowa* requiring participating businesses repay a portion of new jobs withholding credits claimed for each project when new jobs promised by participating businesses are not created or maintained for a specified period, such as 5 years. Currently, there is no mechanism to measure the long term benefits of the program.
- Whether withholding tax for the new jobs withholding credits should be remitted to Revenue and then transferred to community colleges after Revenue verifies the appropriateness of amounts remitted by participating businesses.
- Whether a mechanism or process to document the amount of State and local economic development incentive funds each participating business receives should be implemented. If so, the associated number of jobs planned to be created or retained need to be consistently documented and verified.
- Whether the community colleges should be allowed to transfer accumulated interest earned on closed projects from the NJTP account in order to use the funds for other purposes at the community colleges. The General Assembly should also consider whether the language in the *Code of Iowa* establishing the NJTP program should specifically address allowable and/or unallowable uses for accumulated interest.
- Further study of NJTP and other economic incentive programs, including but not limited to identification of whether the same jobs created under NJTP are used by businesses to apply for and receive funds under other similar programs in addition to receiving NJTP funds. Also, the study should identify what program is creating the new jobs. Consideration should be given to establishing and enforcing penalties for any non-compliant businesses if using the same new jobs created for multiple programs to receive funding or report success is identified as a frequent and significant practice.
- Requiring Revenue to import all data regarding relevant new jobs withholding credits into Revenue's electronic data warehouse to further enhance Revenue's efforts in tracking and monitoring of new jobs withholding credits.

## **PROGRAM SUMMARY**

The purpose of the Iowa Industrial New Jobs Training Program (NJTP) is to provide an incentive to businesses considering locating or expanding operations in the State by sharing in the cost of training for employees filling new jobs. The goal of training includes skill development and enhancement for the State's workforce. NJTP assistance ranges from basic skill training to highly specialized educational programs for new positions.

NJTP became effective July 1, 1983. Authorizing legislation is found in Chapter 260E of the *Code of Iowa*. NJTP is coordinated by the Department of Economic Development (DED) in consultation with the Department of Education (DE). However Iowa's 15 community colleges are responsible for administering NJTP. In accordance with section 260E.7 of the *Code of Iowa*, DED developed administrative rules contained in [261]-Chapter 5 of the Iowa Administrative Code, which must be used by community colleges to administer NJTP.

To participate in NJTP, businesses must submit an application to the community college serving the area in which the new or expanding business is located. To be eligible to participate, businesses must be:

- Expanding operations or opening a new facility in the State and
- Engaged in interstate or intrastate commerce for the purpose of manufacturing, processing, or assembling products, conducting research and development, or providing services in interstate commerce, but excluding retail, health, or professional services.

Businesses are not eligible to participate if operations have closed, will close or the employment base at any other business sites in the State will be substantially reduced in order to relocate substantially the same operation to another area of the State.

The community colleges enter into agreements with eligible businesses to establish a single project or multiple projects which will provide training services authorized by section 260E.2 of the *Code*. Businesses which have entered into NJTP agreements with community colleges are referred to as participating businesses throughout this report. Section 260E.3 of the *Code* includes requirements for NJTP agreements, which are summarized as follows.

- The Iowa Department of Revenue (Revenue) must be notified by community colleges and participating businesses of all agreements entered into.
- Agreements must describe program costs that may be incurred and include minimum amounts of guaranteed revenue sources to be used to pay for program costs, such as:
  - New jobs withholding credits to be received from participating businesses and
  - Incremental property tax to be received from counties.
- All program costs must be paid within 10 years from the date a project begins.
- On-the-job training costs must not exceed 50% of annual gross payroll costs for up to one year of the new jobs.
- Any payments required to be made by participating businesses are a lien upon the businesses' property until paid. Liens are placed on the businesses' property by counties on behalf of community colleges.

DED administrative rules require inclusion of the following additional items in the NJTP agreements:

- Length of time each new job category will be provided on-the-job training,

- Completion date of all other training and
- If supplemental new jobs withholding credits are utilized, the agreement must be signed by a representative of Revenue, in addition to the participating business and community college.

The community colleges electronically report NJTP information to DED each fiscal year, which is maintained in a database. The information includes, but is not limited to, the amount of training certificates issued and the amounts of principal and interest paid on the certificates. The information also includes the amounts of training costs and administrative fees collected by the community colleges and DED, the amounts collected for the projects from withholding tax and incremental property tax and statistical information about the new jobs associated with the projects. The NJTP database includes information gathered since inception of the program. However, according to DED staff we spoke with, data prior to fiscal year 1994 is not as accurate and complete as more recent information.

Community colleges occasionally establish additional agreements with participating businesses to provide additional new jobs, which are referred to as addendums to NJTP agreements. We spoke with DED staff to discuss if the practice of establishing addendums to original NJTP agreements meets the definition of a new project or is just an extension of the original project under existing NJTP agreements. DED staff agreed the definition of a project currently found in section 260E.2 of the *Code of Iowa* is not clear regarding the definition of projects and whether addendums establish new projects or are in addition to existing agreements. DED includes addendums in the NJTP database as separate agreements.

The Office of Auditor of State previously reviewed fiscal year 1991 activity for NJTP and other similar programs administered by DED. As a result of the review, we made several recommendations to DED for improving administration of NJTP. Specifically, we recommended DED:

1. Take a stronger role in the control and evaluation of NJTP.
2. Implement procedures to adequately analyze the success of NJTP to determine if the program is accomplishing its intended objectives.
3. Adopt additional rules and guidance to provide community colleges with a uniform approach and understanding of NJTP.
4. Include written default procedures in the administrative rules which require community colleges to notify DED of defaults on a timely basis and to follow specific due diligence procedures.

DED has not yet implemented recommendations 1 through 3. Also, while current administrative rules include a requirement for community colleges to promptly notify DED of defaults, community colleges have not complied with the administrative rules regarding defaults and DED has not monitored the compliance of community colleges and the extent of defaults. Additional information regarding default reporting is included in the DED and community colleges' monitoring sections of this report. In addition, the administrative rules do not include specific due diligence procedures for defaults identified, as recommended previously.

Many of the areas of concern identified during the fiscal year 1991 review of NJTP are still concerns and are summarized, as appropriate, in various sections of this report in conjunction with additional findings identified.

## FUNDING FOR NJTP

To provide funds for the training and administrative costs of the NJTP projects, the community colleges are authorized by section 260E.6 of the *Code of Iowa* to sell training certificates at a public or private sale, as authorized by the community colleges' boards of directors. Approximately \$758.5 million of training certificates have been sold by the community colleges since inception of NJTP on July 1, 1983 through June 30, 2008. Certificates are sold by the community colleges for each individual NJTP project.

The NJTP database maintained by DED includes training and other costs reported by community colleges since inception. **Table 1** summarizes total on-the-job and other training, administrative and training certificate issuance costs reported by community colleges for all completed projects included in the NJTP database as of June 30, 2008.

**Table 1**

Projects Completed by June 30, 2008								
Area	Community College	Total certificates sold	Training Costs		Administrative Costs		Total training certificate issuance costs	Total
			Total on-the-job training costs	Total other training costs	DED admin fee	Community colleges' admin costs		
I	Northeast Iowa	\$ 10,795,000	\$ 1,158,350	3,048,326	97,527	914,098	234,311	5,452,612
II	North Iowa Area	9,525,000	1,644,676	2,013,163	92,450	908,187	227,232	4,885,708
III	Iowa Lakes	2,200,000	-	491,770	17,950	76,904	19,613	606,237
IV	Northwest Iowa	4,345,000	671,500	664,606	43,450	314,956	96,979	1,791,491
V	Iowa Central	2,505,000	496,447	513,896	16,650	213,405	71,253	1,311,651
VI	Iowa Valley	14,965,000	1,498,599	1,572,348	137,200	389,519	105,968	3,703,634
VII	Hawkeye	19,000,000	2,894,949	3,148,356	181,200	1,447,221	374,116	8,045,842
IX	Eastern Iowa	34,003,000	6,206,462	7,155,020	287,487	2,769,422	726,758	17,145,148
X	Kirkwood	71,276,495	17,277,941	19,238,888	544,750	7,852,870	1,619,257	46,533,706
XI	Des Moines Area	70,160,913	1,450,266	20,657,130	625,886	5,051,180	3,835,351	31,619,813
XII	Western Iowa Tech	18,920,000	5,985,696	677,808	159,500	1,478,407	319,647	8,621,058
XIII	Iowa Western	17,100,000	2,220,079	4,837,974	168,350	1,676,000	683,871	9,586,274
XIV	Southwestern Iowa	7,540,000	342,053	754,163	77,600	277,350	79,482	1,530,648
XV	Indian Hills	12,930,000	3,746,238	4,044,108	129,300	2,009,146	365,540	10,294,332
XVI	Southeastern Iowa	8,725,000	1,257,536	1,220,013	72,570	623,344	508,448	3,681,911
Total		\$303,990,408	\$ 46,850,792	70,037,569	2,651,870	26,002,009	9,267,826	154,810,066

By reviewing information recorded in the database, we determined the costs for a number of older projects were not included. As illustrated by the **Table**, the community colleges only reported approximately \$154.8 million of the approximate \$304 million of training certificate proceeds was spent for projects completed by June 30, 2008. Also, information was not consistently reported by community colleges. In addition to the costs included in the **Table**, community colleges must pay principal and interest on training certificates until the obligations are completely satisfied.

Also, as illustrated by the **Table**, the amount of total training certificate issuance costs varied significantly by community college. According to information in the database, issuance costs ranged from .8% to 5.9% of total certificates sold. However, as previously stated, we determined the costs for a number of older projects were not included in the database. This affects the amount of issuance costs reported. The detail of what is included by each community college as issuance costs is not known or monitored by DED. Because not all costs are reported, we are unable to determine if these variations are reasonable.

### **Training costs**

Training paid for with NJTP training certificate proceeds may be provided only to employees in jobs created by NJTP projects and those employees must pay Iowa withholding tax. The new jobs must result from implementation of a new process or a product used or produced for the first time in the State by participating businesses. Also, jobs created by expanding participating businesses are considered new when the jobs did not exist prior to signing a NJTP agreement and the number of jobs created exceeds the level of employment in their industry six months prior to the NJTP agreement date.

Training costs may be incurred by the community college and/or the participating businesses for the employees filling the new jobs established by the NJTP projects. The training costs may include:

- adult basic education and job-related instruction,
- vocational and skill-assessment services and testing,
- costs associated with training facilities, equipment, materials and supplies and
- on-the-job training.

### **Administrative fees**

To fund administrative services provided by the community colleges and DED, portions of the proceeds from the training certificate sales are distributed to the community colleges and DED.

- (1) Community colleges – To help cover costs of administering NJTP, community colleges are allowed to keep a portion from the proceeds of each training certificate sold based on the approved administrative allowance rate. Administrative allowances are used by the community colleges to cover NJTP expenses incurred, such as:
- Monitoring participating businesses' compliance with the *Code of Iowa*, DED administrative rules and NJTP agreements,
  - Monitoring financial activity related to training certificates sold, new jobs withholding credits, incremental property tax and training expenses,
  - Reviewing and approving requests by participating businesses for reimbursement of funds related to each project under NJTP agreements and the associated training plan,
  - Periodically meeting with personnel of participating businesses to review and discuss activity,
  - Electronically reporting NJTP activity each fiscal year to DED and
  - Quarterly reporting of new jobs withholding credits to Revenue.

The Department of Education's (DE's) primary responsibility for NJTP is calculating the administrative allowance rate for community colleges each year. The Division of Community Colleges and Workforce Preparation of DE calculates the maximum administrative allowance rate based on the collective percentage of total statewide community colleges' expenditures in the general administration and general institution functions of the community colleges' General Fund budget. DE submits proposed administrative allowance rates each fiscal year to DED for approval and DED communicates the approved administrative allowance rate to community colleges.

The memo sent by DED to community colleges each fiscal year to communicate the approved administrative allowance rate states a higher administrative allowance rate may be allowed if community colleges appropriately document costs in excess of the approved rate. However, DED



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does not monitor whether community colleges exceed the approved administrative allowance and if appropriate documentation is maintained.

We calculated and compared actual administrative allowance rates to approved administrative allowance rates for community colleges related to training certificates sold for the 538 NJTP projects reported by DED in the fiscal year 2006 annual report. Of the actual administrative allowance rates charged for NJTP projects by community colleges:

- 13 (2.5%) exceeded approved rates, including 5 at Western Iowa Tech Community College (WITCC), 3 at Des Moines Area Community College (DMACC), 2 at Iowa Valley Community College (IVCC), 2 at Iowa Central Community College (ICCC) and 1 at Indian Hills Community College (IHCC),
- 261 (48.5%) were the same as approved rates and
- 264 (49%) were less than approved rates.

A total of \$35,584 was charged in excess of approved administrative allowance rates for the 13 projects. The administrative allowance rates charged ranged from .01% to 13.33% in excess of the approved rates. Indian Hills Community College reported the highest actual administrative allowance rate of 31.30% for a project during fiscal year 2005, which was 13.33% higher than the approved rate. The next highest rate for a project was reported by DMACC at 29.45% during fiscal year 2005, which was 11.48% higher than the approved rate. DED staff we spoke with believe the actual costs for these projects were reported in error by the community colleges. As a result, the rates reported were inflated. However, DED did not monitor if actual administrative costs charged to and reported for NJTP by community colleges exceed allowable costs based on approved administrative allowance rates to ensure compliance with the approved rate.

**Table 2** summarizes the amount of training certificates sold, total actual administrative costs reported, average actual administrative allowance rates, approved maximum administrative allowance rates and the difference between approved versus actual rates included in the NJTP database for the 672 projects reported by community colleges for fiscal years 2004 through 2008.

**Table 2**

<b>Fiscal year</b>	<b>Total training certificates sold</b>	<b>Total actual administrative costs reported by community colleges</b>	<b>Average administrative allowance rate based on actual costs</b>	<b>Approved maximum administrative allowance rate</b>	<b>Difference between average actual rate and approved rate</b>
2004	\$ 26,746,500	4,517,560	16.89%	17.55%	0.66%
2005	60,634,000	9,682,161	15.97%	17.97%	2.00%
2006	37,795,000	6,212,351	16.44%	19.21%	2.77%
2007	64,763,000	9,860,030	15.22%	17.91%	2.69%
2008	62,199,000	8,176,930	13.15%	18.04%	4.89%
Total	\$ 252,137,500	38,449,032	15.54%	18.14%	2.60%

As illustrated by the **Table**, the community colleges' average actual administrative allowance rates were less than the approved rates during each fiscal year. The highest difference in rates identified was for fiscal year 2008, with an average actual rate of 13.15%, which is 4.89% less than the approved rate of 18.04%. The additional 4.89% represents \$3,041,531 of the total training certificates sold during fiscal year 2008. The average actual administrative allowance rate was 2.6% less than the approved allowance rate during fiscal years 2004 through 2008.

Currently, the amount of administrative funds for community colleges increase in direct proportion to the total dollar amount of training certificates sold. It does not seem reasonable duties involved with projects under each NJTP agreement increase in proportion to the amount of funding involved for each agreement. Many administrative duties performed by community colleges do not vary based on increased quantities of certificates and higher dollar amounts of training certificates sold. Findings regarding DED monitoring of community colleges' administrative allowance rate are summarized in **Finding J**.

(2) Department of Economic Development - Section 15.251 of the *Code of Iowa* authorizes DED to charge community colleges a maximum administrative fee of 1% of the gross amount of training certificates sold by community colleges during each fiscal year. DED has received approximately \$7.6 million of administrative fees from community colleges based on a total of \$758.5 million of training certificates sold since inception. The administrative fees are deposited and accumulated in the Job Training Fund of DED. At the end of each fiscal year, any remaining administrative fees are transferred to the Workforce Development Fund established by *Code* section 15.342A, which may be used for the jobs training program established by *Code* Chapter 260F.

DED uses a minimal portion of the administrative funds received to complete coordinating responsibilities required under Chapter 260E of the *Code*, such as answering questions of community colleges' NJTP staff, maintaining the NJTP database and completing the annual report. The significant portion of NJTP administrative fees collected are used by DED and community colleges for administrative responsibilities associated with the Chapter 260F jobs training program.

For example, during fiscal year 2006, DED received \$665,050 of administrative fees from community colleges and Workforce Development Fund expenses totaled \$338,580. The amount of NJTP administrative fees collected by DED each fiscal year would allow DED to be more involved in monitoring NJTP activity at the community colleges. However, DED staff we spoke with believe the coordinating requirements of *Code* Chapter 260E are being fulfilled by their limited role. DED representatives estimate approximately 20%, or \$67,700, of the fiscal year 2006 expenses relate to NJTP. Therefore, only 10.2% of DED's NJTP administrative fees received from community colleges during fiscal year 2006 were used for NJTP. The remaining 89.8%, or \$597,350, was used for the job training program established by *Code* Chapter 260F.

Funds not spent by DED to monitor NJTP and other funds remaining in the Workforce Development Fund are released to the community colleges according to the formula for Chapter 260F job training projects after DED financial staff compares historical costs to administrative needs for the following fiscal year. For fiscal year 2006, approximately \$326,470 was transferred to community colleges under *Code* Chapter 260F according to DED staff. As of June 30, 2008, the unrestricted fund balance of the Workforce Development Fund was \$3,574,151.46, which may be used for the job training program under *Code* Chapter 260F.

The Chapter 260F jobs training program provides job training services to current employees of eligible businesses located in Iowa. Each community college works with eligible businesses to assess training needs, determine funds availability and provide training. Job training services under Chapter 260F are defined as any training needed to enhance the performance of a business' employees. Businesses apply at community colleges for the money under Chapter 260F and community colleges submit applications to DED for allocation of funding for each fiscal year.

Findings regarding NJTP administrative fees collected by DED are summarized in **Finding B**.

### Issuance Costs

Proceeds received from selling training certificates may be used by community colleges to pay legal fees and underwriter expenses incurred by the community colleges for issuance of training certificates. Since inception of NJTP, community colleges reported issuance costs of over \$9.2 million for completed projects summarized previously in **Table 1**.

### Reserves

A portion of the training certificate proceeds are budgeted by community colleges as a “reserve”, which may be used to make principal and interest payments on certificates in the initial year of the project before any withholding tax is received. Since inception through fiscal year 2008, a total of approximately \$37.8 million has been budgeted for reserves based on amounts reported by community colleges to DED for inclusion in the NJTP database. The budgeted reserve amounts included in the NJTP database are from the initial year of each project. Total budgeted reserves and total actual amounts of reserves used are reported each fiscal year by community colleges.

**Table 3** summarizes total certificates sold, budgeted reserves, actual reserves used, budgeted reserves remaining and budgeted reserve percentages for all projects included in the NJTP database since inception through fiscal year 2008.

		<b>Table 3</b>				
<b>Area</b>	<b>Community College</b>	<b>Total Certificates Sold</b>	<b>Total Budgeted Reserves</b>	<b>Total Actual Reserves Used</b>	<b>Total Budgeted Reserves Remaining*</b>	<b>Total Budgeted Reserves %*</b>
I	Northeast Iowa	\$ 38,675,000	4,142,569	2,912,636	1,229,933	10.7%
II	North Iowa Area	23,655,000	2,302,963	1,975,033	327,930	9.7%
III	Iowa Lakes	12,675,000	1,301,253	1,168,171	133,082	10.3%
IV	Northwest Iowa	20,605,000	2,135,000	-	2,135,000	10.4%
V	Iowa Central	31,330,000	2,447,464	196,846	2,250,618	7.8%
VI	Iowa Valley	28,495,000	3,007,973	424,260	2,583,712	10.6%
VII	Hawkeye	46,490,000	4,047,700	1,219,638	2,828,062	8.7%
IX	Eastern Iowa	99,726,000	9,894,687	7,440,582	2,454,105	9.9%
X	Kirkwood	129,474,495	12,939,645	10,820,176	2,119,469	10.0%
XI	Des Moines Area	178,009,063	6,373,572	354,705	6,018,867	3.6%
XII	Western Iowa Tech	35,245,000	3,748,367	2,500,689	1,247,679	10.6%
XIII	Iowa Western	36,545,000	4,133,885	3,457,205	676,679	11.3%
XIV	Southwestern Iowa	24,565,000	2,431,134	1,283,709	1,147,425	9.9%
XV	Indian Hills	34,360,000	3,427,122	3,143,622	283,500	10.0%
XVI	Southeastern Iowa	18,695,000	1,719,890	858,746	861,144	9.2%
Total		\$ 758,544,558	64,053,222	37,756,018	26,297,204	8.4%

\* - Calculated by auditor.

## **Interest**

As stated previously, a portion of the training certificate proceeds are held by the community colleges as a reserve. In addition, because the remaining portion of the proceeds may not immediately be disbursed by the community colleges, the funds are held by the colleges in various interest-bearing financial instruments. In some cases, the interest earned by the colleges on the unused funds accumulates to a significant amount.

In late 1992, an official from a community college received written guidance from a law firm in response to an inquiry regarding the allowable use of new jobs training certificate proceeds and interest earnings. Specifically, the guidance provided:

“The interest can be used for the costs of issuance and administration or it can be used to cover shortfalls for any project within a multiple issue. At the end of the fiscal year, following payment of principal and interest, if all projects within the multiple [issue] are current, the interest can be transferred to other college funds and be used for any lawful purpose.”

Further, the guidance went on to state:

“If at the end of the project there are excess monies which are clearly other than interest earnings, the college should attempt to trace the source of the funds and the statute provides that those funds shall be repaid to the county or the State Department of Revenue as applicable. Interest earnings at the end of the project may be transferred to other college funds following complete payment of all costs related to the project.”

We are aware of 2 instances in which community colleges used this guidance as authorization to transfer accumulated interest for closed projects from the designated NJTP accounts maintained by the college. In the first instance, a total of approximately \$1,350,000 was transferred from the community college’s NJTP account to its General Fund over the course of 4 fiscal years.

The second community college transferred approximately \$7,375,000 from the NJTP account to its Plant Fund during the fiscal year ended June 30, 2008 to help meet building and repair costs.

Because the debt for the certificates was paid with funds which would otherwise have been paid to the State’s General Fund or from local tax revenue rather than the accumulated interest and/or unused reserves, the effect of the transfers made by the community colleges is essentially the same as an additional appropriation funded by the State’s General Fund and the County.

## **PAYMENTS TO RETIRE TRAINING CERTIFICATES**

The total principal balance remaining for each training certificate issued is reported annually in the community colleges’ audit reports. Since fiscal year 2008 audit reports are not yet available for all community colleges, we obtained relevant information from the fiscal year 2007 community colleges’ audit reports. **Table 4** summarizes total principal balances remaining reported in the community colleges’ audit reports, the NJTP database and the difference for each community college at June 30, 2007.

**Table 4**

Principal balance remaining at June 30, 2007 per:				
Area	Community College	Community College audit report	NJTP database	Difference
I	Northeast Iowa	\$ 13,295,000	13,225,000	70,000
II	North Iowa Area	7,670,000	7,670,000	-
III	Iowa Lakes	3,710,000	1,422,153	2,287,847
IV	Northwest Iowa	8,790,000	8,875,000	(85,000)
V	Iowa Central	8,070,000	6,490,000	1,580,000
VI	Iowa Valley	5,315,000	6,000,000	(685,000)
VII	Hawkeye	15,745,000	15,410,000	335,000
IX	Eastern Iowa	45,580,000	45,710,000	(130,000)
X	Kirkwood	23,190,000	24,855,000	(1,665,000)
XI	Des Moines Area	60,460,000	50,049,613	10,410,387
XII	Western Iowa Tech	9,795,000	9,795,000	-
XIII	Iowa Western	6,845,000	5,740,000	1,105,000
XIV	Southwestern Iowa	7,150,000	7,260,000	(110,000)
XV	Indian Hills	10,635,000	10,635,000	-
XVI	Southeastern Iowa	3,435,000	3,430,000	5,000
Total		\$ 229,685,000	216,566,766	13,118,234

Source: Community Colleges' fiscal year 2007 audit reports and NJTP database as of June 30, 2007

The **Table** illustrates the approximately \$229.7 million outstanding principal balance based on amounts reported in the community colleges' fiscal year 2007 audit reports is approximately \$13.1 million more than the \$216.6 million included in the NJTP database as of June 30, 2007. We identified differences for 12 of the 15 community colleges. The amounts agreed for only North Iowa Area Community College (NIACC), WITCC and IHCC. The NJTP database does not include over \$13.1 million of principal balances remaining that are included in the community colleges' audit reports. The differences in the remaining principal balances are briefly summarized later in the NJTP database information section of this report, along with other concerns regarding the database.

Payments of principal and interest for the training certificates sold by community colleges are made by the community colleges from the sources identified in the individual agreements with the participating businesses. The sources are established by the *Code of Iowa* and include the following:

#### **New jobs withholding credits**

Payments made by the participating businesses to the community colleges for the withholding tax from new jobs resulting from the business' projects are the primary repayment source. Rather than paying the withholding tax to the State for the wages paid to the employees in the new jobs,

the businesses remit payments to the community colleges to satisfy the debt created by issuing the training certificates. These payments are commonly referred to as new jobs withholding credits. The withholding credits are to be paid quarterly and are 1.5% of the gross wages paid to the employees in the new jobs.

The payments are accounted for by community colleges in a special fund, which must be irrevocably pledged and only used for payment of principal and interest on training certificates. When the principal and interest obligations for the training certificates issued for a particular project have been satisfied, new jobs withholding credits should no longer be issued to the business. In accordance with section 260E.5(2) of the *Code of Iowa*, any funds received by the community colleges after the debt has been satisfied are to be remitted to the Treasurer of State for deposit in the State's General Fund. However, we identified excess withholding tax collected but not remitted to the State based on information reported by community colleges and included in the NJTP database.

The business is to report and certify to Revenue the withholding credits are in accordance with NJTP agreements. In addition, the community colleges are to certify the amounts remitted by participating businesses to Revenue.

Since the inception of the program, withholding credits claimed by participating businesses total approximately \$411.2 million. **Table 5** lists the total withholding credits reported by community colleges as of June 30, 2008.

**Table 5**

<b>Area</b>	<b>Community College</b>	<b>Withholding credits reported</b>
I	Northeast Iowa	\$ 23,443,476
II	North Iowa Area	16,808,809
III	Iowa Lakes	6,004,677
IV	Northwest Iowa	12,507,480
V	Iowa Central	8,350,258
VI	Iowa Valley	17,682,166
VII	Hawkeye	25,914,767
IX	Eastern Iowa	58,802,167
X	Kirkwood	74,431,567
XI	Des Moines Area	97,024,713
XII	Western Iowa Tech	20,587,649
XIII	Iowa Western	19,565,703
XIV	Southwestern Iowa	2,536,067
XV	Indian Hills	19,729,532
XVI	Southeastern Iowa	7,810,597
	Total	<u>\$ 411,198,628</u>

Source: NJTP database as of June 30, 2008

A summary of withholding credits reported by community colleges during fiscal years 1984 through 2008 are summarized in **Schedule 1**.

### **Supplemental new jobs withholding credits**

These additional 1.5% credits are authorized by section 15A.7 of the *Code* for additional projects and may be used only when approved by the community colleges' board of directors and included in the NJTP final approved agreement. The final approved agreement must include a provision for the additional 1.5% supplemental withholding credits which provide additional funding for NJTP. Supplemental new jobs withholding credits are based on an additional 1.5% of gross wages for each employee participating in a new job created and must be collected, accounted for and pledged by community colleges in the same manner as new jobs withholding credits established under *Code* Chapter 260E. When supplemental new jobs withholding credits are included in NJTP agreements, the total withholding credit is 3%, including the 1.5% new jobs withholding credit and the 1.5% supplemental new jobs withholding credit.

The supplemental new jobs withholding credits is designed to promote creation of high quality jobs and is dependent upon the individual jobs meeting the current wage requirements and upon the wages paid to the individuals in these jobs. According to DED administrative rules for NJTP contained in IAC [261]-Chapter 5, businesses may apply for the supplemental credit through community colleges and eligibility is determined by community colleges prior to approving the NJTP agreement.

Since community colleges report combined totals of new jobs withholding credits and supplemental new jobs withholding credits, **Table 5** summarizes the reported total withholding credits for both types of credits combined.

### **Incremental property tax**

If provided for in the individual agreement, the community colleges also make repayments from incremental property tax received. The incremental property tax is generated due to increases in the valuation of the participating business' property where new jobs are created as a result of the project. In some instances, the incremental property tax received also include proceeds from tax increment financing (TIF) provided for in Chapters 403 and 260E.4 of the *Code*.

During community colleges' and counties' annual budget processes, community colleges must certify to counties the amount of incremental property tax remaining to be paid by participating businesses to satisfy the debt. Counties collect property tax from participating businesses and remit the certified incremental portion to community colleges.

Since the inception of the program, the amount of property tax provided to the community colleges to retire NJTP training certificates rather than being remitted to the counties in which the participating businesses are located totals approximately \$69.1 million. **Table 6** lists the amount of property tax forgone by local governments as of June 30, 2008.

**Table 6**

<b>Area</b>	<b>Community College</b>	<b>Total property tax forgone by local governments</b>
I	Northeast Iowa	\$ 1,219,699
II	North Iowa Area	-
III	Iowa Lakes	-
IV	Northwest Iowa	1,104,408
V	Iowa Central	418,466
VI	Iowa Valley	5,931,802
VII	Hawkeye	1,754,221
IX	Eastern Iowa	5,366,100
X	Kirkwood	27,099,730
XI	Des Moines Area	5,475,854
XII	Western Iowa Tech	6,007,879
XIII	Iowa Western	9,691,656
XIV	Southwestern Iowa	104,291
XV	Indian Hills	2,373,612
XVI	Southeastern Iowa	2,596,008
Total		<u>\$ 69,143,726</u>

Source: NJTP database as of June 30, 2008

Based on a summary of total property tax reported by community colleges and included in the NJTP database, only \$29,568 of property tax has been provided to community colleges for a project at KCC during the most recent 5 fiscal years. The practice of assessing incremental property tax for repayment of training certificates issued by community colleges has decreased dramatically in recent years.

### **Standby tax levy**

In addition to the repayment provisions specified in individual project agreements, the community colleges' Boards of Directors, by resolution, may provide for the assessment of an annual levy of a standby property tax to secure the payment of the training certificates. The standby property tax is used in the case of default only and is applicable to all taxable property within the merged area served by the community college. The revenues from the standby property tax are to be deposited in a special fund and expended only for the payment of principal and interest for training certificates when the receipt of payment for program costs as provided in the individual agreements is not sufficient.

If payments are necessary from the standby property tax proceeds, the amount of the payments are to be repaid to the special fund from the first available payments received for program costs provided by the agreement. The community colleges are not to build up reserves of the standby property tax in anticipation of defaults and the Board of Directors are to adjust the annual standby tax levy each year based on the amount in the special fund and anticipated needs to meet the amount of principal and interest due in that year.



The NJTP database does not include separate amounts of standby property tax levied to retire NJTP training certificates. Standby property tax amounts are included in the total property tax amounts reported by community colleges. However, community colleges are supposed to report if a standby levy is applicable for a project and DED includes an identifier indicating whether each project has a standby levy. According to the NJTP database, 5 NJTP projects at Eastern Iowa Community College (EICC) and a project at IHCC have standby property tax levied by the county in which the participating business is located.

The IHCC standby property tax was levied in fiscal year 2007. Of the 5 standby property tax levies for EICC projects:

- 2 were levied in fiscal year 2003,
- 1 was levied in fiscal year 2006 and
- 2 were levied in fiscal year 2008.

We identified instances of community colleges collecting withholding tax and incremental property tax in excess of amounts necessary to make payments of principal and interest on training certificates and using excess amounts for other NJTP projects in need of funds. This does not comply with NJTP *Code of Iowa* requirements. When payments of principal and interest on training certificates are complete, the community colleges are to discontinue collecting funds of any type. If excess funds are collected, they are to be remitted to the State or county as required by the following *Code* sections.

- Section 260E.5 regarding new jobs withholding credits states, in part, *“When the principal and interest on the certificates have been paid, the employer credits shall cease and any money received after the certificates have been paid shall be remitted to the treasurer of state to be deposited in the general fund of the state.”*
- Section 260E.4 requires incremental property tax remitted by counties to community colleges must be used only for payment of principal and interest on training certificates.
- Section 260E.6 regarding standby property tax states, in part, *“No reserves may be built up in this fund in anticipation of a projected default.”*

For example, when IVCC NJTP staff determined a project under an NJTP agreement had sufficient funds to make all payments on the training certificate, additional withholding tax and incremental property tax collected were transferred to a holding account. Holding account funds are transferred by IVCC to other projects under NJTP agreements in need of funds to pay training certificates due to default by participating businesses. Also, according to IVCC staff we spoke with, excess funds are transferred to the NJTP administrative account in some instances after the certificates are paid off.

In addition, we reviewed and analyzed detailed activity within the IVCC holding account and identified a total of \$203,748 had been transferred to the holding account, consisting of:

- \$151,516 of withholding tax and
- \$52,232 of incremental property tax.

IVCC transferred \$130,032 of the total holding account balance to various other NJTP projects in need of funds. Any excess funds remaining after principal and interest on related training certificates were paid should have been remitted to the State and county, as appropriate. The remaining balance of \$73,716 in the IVCC holding account should also have been remitted to the State or county, as appropriate.

We reviewed NJTP records for similar activity at Northeast Iowa Community College (NEICC) and determined NEICC does not maintain a holding account for accumulation of any excess funds. However, according to NEICC staff we spoke with, on rare occasions amounts identified as excess revenue within a project have been transferred to other projects in need of funds to make payments on training certificates but, according to NEICC staff, such transfers are only done between projects relating to the same participating business. Also, addendums to NJTP agreements reviewed at IVCC and NEICC were generally not as specific as the original agreements, especially regarding funding sources to be used for repayment of training certificates.

It is not appropriate for community colleges to use excess funds collected under a project to make payments on training certificates related to a different project. Any funds collected in excess of what is needed to pay off a training certificate for a project should be remitted to the State or county, as appropriate. It is important community colleges consistently comply with relevant *Code* requirements and appropriately account for, track and monitor the use of funds by funding source so any collections not needed to retire the training certificates may be returned as required. Findings regarding excess funds collected by community colleges for NJTP projects are summarized in **Finding C**.

### **STATE REVENUE DIVERTED TO FUND NJTP**

As stated previously, 1.5% of the gross wages paid to the employees in the new jobs are sent to the community colleges to pay the training certificates rather than being submitted to Revenue as income tax. Also, another 1.5% of the gross wages may be sent to community colleges by participating businesses rather than to Revenue if supplemental new jobs withholding credits are agreed to for additional projects. As of June 30, 2008, a total of approximately \$411.2 million of withholding credits were reported by community colleges to DED since inception, as summarized previously in **Table 5**. The total withholding credits reported by community colleges during the most recent 5 fiscal years, from 2004 through 2008, is approximately \$68.4 million, which is 16.6% of the total since inception.

In addition to the forgone withholding tax for the individual employees, Revenue transfers up to an additional \$4 million per year from the State's General Fund to the Workforce Development Fund. The fund is maintained by DED and primarily used for the job training program under *Code* Chapter 260F, as mentioned previously.

In accordance with section 422.16A of the *Code*, when businesses complete repayment obligations for an NJTP project, the community college which administered the project is to report to DED the amount of withholding tax paid by the business to the community college during the final 12 months of withholding payments.

DED is to notify Revenue of the final 12 months of withholding tax reported by the community colleges for all completed projects. Revenue transfers 25% of the total amount to the Workforce Development Fund established by *Code* section 15.342A each quarter for a period of ten years. The amount transferred from the State's General Fund by Revenue is limited to \$4 million per year by the *Code* since fiscal year 2002. However, during fiscal years 2000 and 2001, a maximum of \$8.8 million and \$8 million, respectively, was authorized by the General Assembly in the appropriation acts to be transferred to the Workforce Development Fund.

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A total of approximately \$48.4 million was transferred to the Workforce Development Fund during fiscal years 2000 through 2008. **Table 7** summarizes the total amount transferred by Revenue from the State's General Fund, the amounts transferred by DED from 260E administrative funds not used and the amounts available in the 260F Job Training Fund during each fiscal year.

**Table 7**

<b>Fiscal Year</b>	<b>Amount Transferred from the State's General Fund</b>	<b>Amount transferred from 260E DED admin funds</b>	<b>Amount from job training and other funds (260F)</b>	<b>Total Funds Available for 260F Job Training Fund</b>
2000	7,083,158	812,433	730,000	\$ 8,625,591
2001	8,000,000	390,000	99,784	8,489,784
2002	4,000,000	-	-	4,000,000
2003	4,000,000	779,003	143,716	4,922,719
2004	4,000,000	262,100	8,400	4,270,500
2005	4,000,000	286,350	-	4,286,350
2006	4,000,000	220,300	400,000	4,620,300
2007	4,000,000	300,000	250,000	4,550,000
2008	4,000,000	350,000	325,000	4,675,000
Total	\$ 43,083,158	3,400,186	1,956,900	\$ 48,440,244

Source: The State's financial accounting system

As demonstrated by the **Table**, Revenue transferred approximately \$43.1 million from the State's General Fund to the Workforce Development Fund during fiscal years 2000 through 2008. Also, a total of approximately \$3.4 million of excess NJTP administrative fees received from community colleges and almost \$2 million of job training and other funds were transferred by DED to the Workforce Development Fund. Use of the total amounts transferred to the Workforce Development Fund is summarized in **Schedule 2**.

According to a report issued by Revenue's Internal Audit staff in November 2003, DED has billed Revenue for amounts which exceeded the \$4 million per year limit. However, Revenue staff did not transfer the amounts in excess of the limit established by the *Code*. Also, the Workforce Development Fund also includes excess administrative funds received by DED under NJTP but not used for administration of NJTP. Section 15.251 of the *Code* allows DED to transfer the excess to the Workforce Development Fund, where it may be used for the Job Training Program authorized by Chapter 260F.

Because the *Code* requires the payments to occur quarterly for a period of 10 years after each project's obligation is satisfied, additional funds will continue to be transferred from the State's General Fund to the Workforce Development Fund each year. The March 2009 Tax Credits Contingent Liability Brief submitted by Revenue to the Revenue Estimating Conference shows the history of amounts transferred and forecast amounts of tax credit contingent liabilities ranging from approximately \$42.3 million for fiscal year 2009 to approximately \$44.9 million for fiscal year 2013. Consideration of whether the General Assembly should continue or establish a sunset provision for the \$4 million per year transfer from the State's General Fund is summarized in **Items for Further Consideration**.

Also, participating businesses have claimed corporate income tax credits allowed by the *Code of Iowa*, section 422.33(6), ranging from approximately \$1 million in 2000 to approximately \$2 million in 2006. During 2000 through 2006, the highest amount of the corporate tax credits was approximately \$5.2 million for 2005. The tax credit amounts for 2006 were reported by Revenue on March 17, 2009. Tax credit amounts for the 2007 and 2008 tax years were not available from Revenue as of March 2009.

## **MONITORING AND REPORTING**

As stated previously, NJTP is coordinated by DED in consultation with DE but administered by the community colleges. DED has developed administrative rules which are to be used by community colleges to administer NJTP. Proper administration of the program is to be monitored by the community colleges and DED. Revenue also performs certain monitoring procedures related to NJTP. We assessed the monitoring and reporting performed by the community colleges, DED and Revenue. Our findings are included in the following paragraphs.

### **Community Colleges**

The community colleges are to ensure the projects are properly established and the participating businesses properly adhere to the terms of the agreements. We interviewed, corresponded with and obtained information from certain community colleges' staff responsible for administering NJTP, reviewed written policies, procedures and financial information and tested and evaluated certain activity under NJTP agreements and monitoring procedures completed by community colleges.

(1) Training specified in the agreement - We identified 5 of 30 project agreements tested at IVCC and 11 of 49 project agreements tested at NEICC did not specify training planned for the new jobs. We also determined the training included in the project agreements was general in nature and not specific to the planned new jobs for 6 of 30 projects tested at IVCC and 21 of 49 projects tested at NEICC. For example, training such as the following were identified in some agreements:

- Orientation,
- Introduction to computers and basics of software,
- Leadership development,
- Occupational health and safety,
- Business personnel procedures.

Training included in NJTP agreements and provided to employees by participating businesses needs to be specifically relevant and necessary for the new jobs created by projects to help ensure the intent of the program is met. Findings regarding training agreed to in NJTP agreements are summarized in **Finding E**.

(2) Addendums to agreements - Community colleges occasionally create addendums to projects which provide additional new jobs. However, DED staff members we spoke with stated the manner in which addendums are treated and accounted for vary among community colleges. Some community colleges treat addendums as an extension of an existing agreement while others consider addendums to be separate agreements.

We reviewed some addendums to NJTP agreements at IVCC and NEICC and determined most addendums were not as specific as the original NJTP agreements, especially regarding funding sources to be used for repayment of training certificates. Findings regarding definitions of a project and addendum are summarized in **Finding L**.

(3) Monitoring of participating businesses - The community colleges are required by DED administrative rules to establish a monitoring system which includes, at a minimum, an annual review of participating businesses' compliance with NJTP legal requirements, administrative rules and training agreements. The community colleges are also required by DED administrative rules to document their NJTP monitoring efforts. During our review of the community colleges'

monitoring procedures, we determined the following:

- Job creation goals - Community colleges do not consistently evaluate whether specific projects are effective in creating and retaining new jobs, which is essential for determining if the legislative intent of NJTP is met. Also, community colleges have not consistently monitored if job creation goals contained in NJTP agreements have been met and have not consistently compared planned new jobs to actual jobs created and if the types of jobs created are appropriate under NJTP agreements. A significant amount of money has been spent on NJTP. However, there is no way to determine what the State is getting for its money since the number and type of new jobs created is not consistently monitored and verified.
- Inconsistent monitoring procedures - We determined the types and extent of monitoring procedures completed by community colleges varies from college to college. For example, some community colleges do not consistently:
  - Complete annual monitoring visits and on-site monitoring visits of participating businesses to determine compliance with NJTP requirements as required by the administrative rules. Also, NJTP staff of some community colleges indicated they were not aware of the annual monitoring requirement contained in the DED administrative rules.
  - Document monitoring procedures completed and results. It is important for community colleges to consistently comply with monitoring requirements contained in the NJTP administrative rules, including documenting monitoring completed.
- Withholding credits not properly monitored - Some community colleges are not sufficiently monitoring the withholding credits claimed by participating businesses. For example, in many instances, IVCC and NEICC's NJTP staff did not obtain and review a listing of employees in the new jobs created, including gross wages and calculations of new jobs withholding credits. We determined some community colleges do not consistently:
  - Require participating businesses to submit documentation to demonstrate accurate calculation of amounts of new jobs withholding credits specifically for new jobs covered by the NJTP agreements. While not specified by administrative rules, supporting documentation to be submitted by participating businesses should include, but not be limited to:
    - a listing of employee names in new jobs created,
    - associated federal tax identification numbers,
    - gross wages for each employee and
    - calculations of new jobs withholding credits which are claimed.
- Improper withholding tax remitted - We determined some participating businesses remitted withholding tax to the community colleges which exceeded the allowable 1.5% of gross wages paid to employees in new jobs. In some instances, the participating businesses remitted 1.5% of the gross wages paid to all of their employees, including employees not filling new jobs.
- Improper allocation between projects - NJTP staff at the community colleges are responsible for allocating withholding tax remitted by participating businesses and incremental property tax received from counties to the appropriate NJTP projects in accordance with provisions of NJTP agreements.

According to some community college staff members we spoke with, financial records of participating businesses are not always obtained and reviewed. As a result, when a

participating business has multiple NJTP projects, the withholding credits claimed by the business are not consistently allocated between the business' projects based on the gross pay of specific employees filling positions for each individual project.

- Monitoring performed - Based on our review, community college staff discuss questions and issues with personnel of participating businesses during on-site visits. The community college staff members also compare withholding credits from new jobs to amounts pledged for payment of principal and interest on training certificates during on-site monitoring visits. However, we reviewed the extent of monitoring completed by IVCC and NEICC and determined the community colleges do not consistently determine compliance with other terms of the NJTP agreements during on-site monitoring.

In addition, NJTP agreements include a budget and description of types of training needed. However, monitoring is not consistently completed by some community colleges to determine whether participating businesses' expenditures requested to be reimbursed were in compliance with the budget and types of training covered by the NJTP agreement.

Findings regarding community colleges' monitoring of NJTP activity are summarized in **Finding F**.

(4) Withholding tax reported to Revenue and DED - Community colleges are required by section 260E.5 of the *Code of Iowa* to report all withholding tax from new jobs remitted by participating businesses to both Revenue and DED. Revenue staff we spoke with have identified inconsistencies and inaccuracies in community colleges' reporting of withholding tax received from participating businesses. In addition, Revenue staff reported the amounts are not always reported on a timely basis as required by DED administrative rules.

We also identified examples of inaccurate withholding tax amounts received, accounted for and reported by IVCC and NEICC. In addition, IVCC did not consistently submit reports regarding amounts of new jobs withholding tax received to Revenue as required by the *Code*.

(5) Reporting information to DED - Section 403.21 of the *Code of Iowa* specifically requires community colleges to report the following NJTP activity to DED each fiscal year in which incremental property tax is used to pay training certificates:

- incremental property tax and new jobs withholding credits generated for the fiscal year,
- specific description of the training conducted,
- number of employees provided NJTP services under each project,
- median wage of employees in the new jobs in each project and
- administrative costs directly attributable to each project.

However, according to community college staff we spoke with, a specific description of the training conducted and median wage of employees in the new jobs in each project under NJTP agreements are not reported to DED because the items are not included in the electronic form DED provides to the community colleges. As a result, some required items are not reported by community colleges.

In addition, the community colleges are required by administrative rules contained in [261]-section 5.10(3) to promptly notify DED on forms provided by DED whenever defaults are identified. However, defaults have not been promptly reported by community colleges to DED since inception of the program. Default status is only reported electronically to DED each fiscal year when other reporting of NJTP information is performed.

Both community college and DED staff responsible for administering NJTP are not aware of a form for reporting defaults and none have been provided by DED to the community colleges. However,

the absence of a form should not keep community colleges from promptly notifying DED of defaults. At least 41 defaults, as summarized in **Table 14**, and any future defaults need to be reported to DED.

(6) Excess funds - Information reported by community colleges to DED and included in the NJTP database is not sufficient to identify:

- Whether funds were collected in excess of what was necessary to make payments on training certificates,
- The composition of any excess funds, such as withholding tax and property tax and
- Whether excess funds have been appropriately remitted to the State or counties.

Findings regarding community colleges' reporting of NJTP activity are summarized in **Finding G**.

## **DED**

DED representatives are to ensure the community colleges comply with requirements established by the *Code of Iowa* and the Administrative Code. We reviewed and evaluated monitoring and reporting completed by DED to identify areas where improvement is needed. To obtain monitoring information and reports we interviewed, corresponded with and met with DED staff responsible for overseeing NJTP and reviewed and evaluated information received. Also, we obtained and analyzed DED's NJTP database to summarize and review for reasonableness.

(1) NJTP database information - The following information is electronically reported by community colleges to DED each fiscal year for inclusion in the NJTP database:

- Community college name,
- Participating business name and location,
- Training certificate amount and DED approval date,
- Principal amount repaid on training certificate and balance remaining,
- Interest payment for training certificate,
- DED administrative fee,
- Community college administrative and training costs,
- Withholding tax amounts related to new jobs credits,
- Incremental property tax,
- Planned, highest and actual number of new jobs,
- Active/default status,
- Project completion date and
- Other relevant information.

DED relies on community colleges to report accurate data and does not verify whether information reported is accurate. We reviewed and analyzed certain data contained in the NJTP database and identified several errors, data that is not reasonable and other concerns. We did not review all data in the database. However, we believe it is likely other errors exist in the database since DED does not verify the information reported by community colleges. The concerns identified are summarized in **Finding H** and addressed in detail in the following paragraphs.

- Remaining principal balances - **Table 8** summarizes total training certificates sold, principal payments, principal balance remaining, interest payments and combined

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principal and interest payments for each community college as of June 30, 2008.

**Table 8**

		As of June 30, 2008				
Area	Community College	Training certificates sold	Principal payments*	Principal balance remaining	Interest payments	Principal & interest payments
I	Northeast Iowa	\$ 38,675,000	23,735,000	14,490,000	3,000,161	26,735,161
II	North Iowa Area	23,655,000	16,375,000	7,280,000	1,837,287	18,212,287
III	Iowa Lakes	12,675,000	9,972,791	2,702,209	712,608	10,685,399
IV	Northwest Iowa	20,605,000	10,940,000	9,665,000	4,106,939	15,046,939
V	Iowa Central	31,330,000	24,170,000	7,160,000	1,390,455	25,560,455
VI	Iowa Valley	28,495,000	23,590,000	4,905,000	6,497,232	30,087,232
VII	Hawkeye	46,490,000	29,830,000	16,660,000	16,277,128	46,107,128
IX	Eastern Iowa	99,726,000	58,761,000	40,965,000	3,011,448	61,772,448
X	Kirkwood	129,474,495	99,819,495	29,655,000	40,243,802	140,063,297
XI	Des Moines Area	178,009,063	103,032,548	74,976,515	19,197,422	122,229,970
XII	Western Iowa Tech	35,245,000	27,300,000	7,945,000	9,494,529	36,794,529
XIII	Iowa Western	36,545,000	31,680,000	4,865,000	5,806,217	37,486,217
XIV	Southwestern Iowa	24,565,000	14,415,000	10,150,000	1,787,868	16,202,868
XV	Indian Hills	34,360,000	21,535,000	12,825,000	5,240,515	26,775,515
XVI	Southeastern Iowa	18,695,000	13,675,000	5,020,000	3,178,559	16,853,559
Total		\$ 758,544,558	508,830,834	249,713,724	121,782,171	630,613,005

\*-Total principal payments were not reported by community colleges and included in the NJTP database. The amounts shown were calculated by reducing the total certificates sold by the principal balance remaining.

The principal balances remaining included in the **Table** as of June 30, 2008 are based on amounts reported by community colleges to DED for inclusion in the NJTP database. Community colleges' fiscal year 2008 audit reports were not available during our review, except for IHCC and KCC, so a comparison of amounts in the database to audit reports as of June 30, 2008 could not be completed for the other 13 community colleges. We identified the \$12,825,000 included in the IHCC fiscal year 2008 audit report agrees with the principal balance remaining included in **Table 8**. However, the \$26,445,000 included in the KCC fiscal year 2008 audit report is \$3,210,000 less than the \$29,655,000 principal balance remaining included in **Table 8**.

Also, we previously compared the calculated principal balances as of June 30, 2007 to the remaining principal shown in each community college's audit report for the fiscal year ended June 30, 2007. **Table 4** shows the total principal balance remaining for community colleges based on the audit reports is about \$13.1 million more than the totals calculated from the NJTP database. We identified differences for 12 of the 15 community colleges. The amounts agreed only for NIACC, WITCC and IHCC.

Differences between the audit reports and database are primarily due to inconsistencies and inaccuracies in community colleges' reporting of information to DED for the NJTP database. The community colleges' audit report amounts used to summarize information are more reliable than database amounts because the audit report amounts have been



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audited by an independent party while the database amounts are based on information that is not verified by community colleges and DED.

- DED administrative fees not reported correctly - Based on 1% of the approximately \$758.5 million of training certificates sold summarized in **Table 8**, the total DED administrative fees received from community colleges should be approximately \$7.6 million. However, approximately \$7.4 million of DED administrative fees were reported by community colleges as of June 30, 2008. The difference of approximately \$200,000 is comprised of 267 errors in reporting DED administrative fees by community colleges since inception. Of the 267 DED administrative fee errors identified, 178 were administrative fees reported as \$0 rather than as 1% of the training certificates sold. Of the remaining 89 errors, 60 reported more than and 29 reported less than 1% of the training certificates sold. In addition, we determined 50 of the 267 errors relate to fiscal years 1999 through 2008.
- Number of new jobs created is less than expected - To determine the rate of success for NJTP projects established by the community colleges, we used information from the NJTP database and compared the actual number of new jobs created to the planned number of new jobs for projects which were completed by June 30, 2008. **Table 9** summarizes the average new jobs creation success rate for completed projects based on planned and actual number of new jobs reported by the community colleges as of June 30, 2008.

**Table 9**

Projects Completed by June 30, 2008						
Area	Community College	Number of projects*	Training certificates sold	Planned number of new jobs	Actual number of new jobs	New jobs success rate**
I	Northeast Iowa	72	\$ 10,795,000	5,099	4,281	84.0%
II	North Iowa Area	51	9,525,000	4,639	3,727	80.3%
III	Iowa Lakes	18	2,200,000	1,337	1,494	111.7%
IV	Northwest Iowa	25	4,345,000	1,262	769	60.9%
V	Iowa Central	20	2,505,000	1,228	786	64.0%
VI	Iowa Valley	56	14,965,000	4,209	5,674	134.8%
VII	Hawkeye	82	19,000,000	8,289	8,870	107.0%
IX	Eastern Iowa	148	34,003,000	10,422	7,923	76.0%
X	Kirkwood	212	71,276,495	16,032	12,470	77.8%
XI	Des Moines Area	273	70,160,913	21,003	17,064	81.2%
XII	Western Iowa Tech	58	18,920,000	5,533	5,430	98.1%
XIII	Iowa Western	48	17,100,000	4,255	3,878	91.1%
XIV	Southwestern Iowa	56	7,540,000	3,410	2,530	74.2%
XV	Indian Hills	17	12,930,000	2,510	2,374	94.6%
XVI	Southeastern Iowa	46	8,725,000	3,208	1,846	57.5%
Total		1,182	\$ 303,990,408	92,436	79,116	85.6%

\* - As reported by the community colleges at June 30, 2008.

\*\* - Calculated by dividing actual number of new jobs by planned number of new jobs.

As demonstrated by the **Table**, the average new jobs creation success rates vary dramatically among community colleges. IVCC has the highest new jobs creation success rate at 134.8% while Southeastern Iowa Community College (SEICC) has the lowest success rate at 57.5%. Also, the average success rate for the 15 community colleges is 85.6% and 3 community colleges reported more actual new jobs were created than

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planned. However, because DED does not verify NJTP information reported by community colleges, there is no assurance the actual number of new jobs summarized in the **Table** is accurate.

We calculated individual project success rates for all completed projects based on planned and actual number of jobs reported by community colleges and included in the NJTP database. **Table 10** summarizes the 5 highest and 5 lowest individual project success rates for completed projects since inception through fiscal year 2008.

**Table 10**

			As of June 30, 2008			
Area	Community College	Business	Training certificates sold	Planned number of new jobs	Actual number of new jobs	New jobs success rate
<b>Highest Success Rates:</b>						
VI	Iowa Valley	Lennox Industries Inc.	\$120,000	19	619	3,257.9%
VII	Hawkeye	Weyerhaeuser Co.	75,000	12	84	700.0%
XII	Western Iowa Tech	Butcher's Quality Meats	65,000	47	250	531.9%
VI	Iowa Valley	Tama Meat Packing Inc.	535,000	80	425	531.3%
VI	Iowa Valley	Kiowa Corp.	70,000	35	168	480.0%
<b>Lowest Success Rates:</b>						
X	Kirkwood	Freedom Group Inc.	465,000	44	5	11.4%
XIII	Iowa Western	Advanced Tool & Plastic	65,000	40	4	10.0%
X	Kirkwood	Parsons Technology Inc.	750,000	359	30	8.4%
VII	Hawkeye	Dieomatic Inc.	60,000	31	2	6.5%
X	Kirkwood	Oral B Laboratories	2,340,000	299	8	2.7%

The training certificates corresponding to the number of jobs and success rates summarized in the **Table** were issued during fiscal years ranging from 1986 through 2000. For example, the training certificates for the Lennox Industries Inc. project at IVCC were issued on November 14, 1985 and for the Oral B Laboratories project at KCC were issued on May 24, 2000.

Because the actual number of new jobs is not verified by the community colleges or DED, we can not determine if the success rates shown in the **Table** are accurate.

Success rates for the 1,182 completed projects included in the NJTP database and summarized in **Table 10** since inception are:

- higher than 100.0% for 122 projects,
- 100.0% for 692 projects,
- lower than 100.0% but higher than 0.0% for 140 projects and
- 0.0% for 228 projects.

About 19.3%, or 228 of the 1,182 completed NJTP projects summarized in **Table 9**, resulted in no new jobs created, which is a 0.0% success rate since inception. **Table 11** summarizes the total training certificates sold since inception to fund the 228 NJTP projects which resulted in no new jobs created rather than a total of 15,627 planned new jobs reported by community colleges as of June 30, 2008.

**Table 11**

		<b>As of June 30, 2008</b>		
<b>Area</b>	<b>Community College</b>	<b>Number of projects with no new jobs created</b>	<b>Total training certificates sold</b>	<b>Total planned number of new jobs</b>
I	Northeast Iowa	16	\$ 1,255,000	700
II	North Iowa Area	9	1,175,000	732
III	Iowa Lakes	1	85,000	28
IV	Northwest Iowa	13	2,020,000	546
V	Iowa Central	6	548,000	442
VI	Iowa Valley	8	1,400,000	306
VII	Hawkeye	12	2,257,000	1,178
IX	Eastern Iowa	35	6,446,000	2,650
X	Kirkwood	34	5,130,605	1,683
XI	Des Moines Area	52	10,956,014	4,091
XII	Western Iowa Tech	10	1,790,000	836
XIII	Iowa Western	8	1,180,000	547
XIV	Southwestern Iowa	11	1,720,000	739
XV	Indian Hills	1	70,000	26
XVI	Southeastern Iowa	12	2,525,000	1,123
	<b>Total</b>	<b>228</b>	<b>\$ 38,557,619</b>	<b>15,627</b>

As illustrated by the **Table**, over \$38.5 million of training certificates were sold by the 15 community colleges to fund the 228 projects which resulted in no new jobs created. Therefore, the purpose of NJTP was not met for 228 of 1,182, or 19.3%, of completed projects as of June 30, 2008. For the 228 projects, the community colleges received a combined total of \$2,965,280 to administer the projects and the DED administrative fees totaled \$385,576.

DED staff we spoke with regarding the information summarized in **Table 11** expressed concerns the information may not present an accurate assessment of NJTP success because the information reported since inception through fiscal year 1993 by community colleges was not as accurate and complete as information reported during fiscal years 1994 through 2008. Of the 228 projects which resulted in no jobs created, 126 were between inception and fiscal year 1993.

As a result, we also analyzed NJTP database information to identify completed projects funded during fiscal years 1994 through 2008 to identify completed projects that resulted in no new jobs created. As illustrated by **Table 12**, 102 projects with no new jobs created were funded during fiscal years 1994 through 2008. **Table 12** also includes the total training certificates sold and total planned number of new jobs for each community college for the projects.

**Table 12**

		<b>Funded during fiscal years 1994 through 2008</b>		
<b>Area</b>	<b>Community College</b>	<b>Number of projects with no new jobs created</b>	<b>Total training certificates sold</b>	<b>Total planned number of new jobs</b>
I	Northeast Iowa	6	\$ 600,000	226
II	North Iowa Area	8	1,125,000	682
III	Iowa Lakes	-	-	-
IV	Northwest Iowa	13	2,020,000	546
V	Iowa Central	-	-	-
VI	Iowa Valley	4	1,170,000	211
VII	Hawkeye	5	1,155,000	704
IX	Eastern Iowa	20	2,970,000	1,478
X	Kirkwood	22	3,895,000	991
XI	Des Moines Area	8	4,887,500	1,333
XII	Western Iowa Tech	5	1,100,000	419
XIII	Iowa Western	-	-	-
XIV	Southwestern Iowa	4	205,000	138
XV	Indian Hills	1	70,000	26
XVI	Southeastern Iowa	6	1,270,000	499
	<b>Total</b>	<b>102</b>	<b>\$ 20,467,500</b>	<b>7,253</b>

As demonstrated by the **Table**, the community colleges reported no new jobs were reported for the 102 projects rather than the 7,253 planned new jobs. A combined total of \$20,467,500 of training certificates was sold to fund the projects. DED charged an administrative fee of \$204,675 for the 102 projects and the community colleges reported a combined total of \$2,710,067 of college administrative fees charged for the 102 projects. Based on information from certain community colleges, some of the businesses reporting no new jobs either closed or filed for bankruptcy.

We identified 503 completed projects reported by community colleges during fiscal years 1994 through 2008. Of the 503 completed projects, no jobs were created for 102 projects. Therefore, using the information from DED's database, it appears the legislative intent of the program was not met for about 20.3% of completed projects since no new jobs were created. Findings regarding legislative intent not being met are summarized in **Finding A**.

- (2) Other NJTP database errors and concerns - We identified the following database errors:
  - DMACC erroneously reported \$133,618,052 of principal balance remaining as of June 30, 2008 for a Hersey Systems Inc. project. Based on other information included in the database, it appears the balance should be approximately \$138,000.
  - EICC erroneously reported \$1,313,609.04 of college administrative fees for a project with a training certificate amount of only \$80,000. According to DED and EICC staff, the correct amount of administrative costs for the project is \$13,621.14 through fiscal year 2006. DED corrected the error so the correct amount is included in the NJTP database as of June 30, 2008.
  - KCC reported data including several errors, such as \$9,999,999 reported as reserves while the training certificate amount was only \$420,000. Also, additional amounts were reported in error for the same NJTP project. Because each field in the fiscal year 2006 NJTP database contained a repeating number, it appears the amounts were

entered to fill in the field rather than report actual activity. According to DED and KCC staff, the following data was reported in error for an inactive project and the amounts should be \$0. As of June 30, 2008, these errors and other lesser amounts with a similar pattern are still included in the NJTP database for the project, as follows:

- \$11,111 through \$77,777 at increments of \$11,111 for various types of training costs,
  - \$88,888 for community college administrative costs,
  - \$99,999 for legal fees relating to training certificate issuance and
  - \$999,999 for underwriting relating to training certificate issuance.
- According to DED's definitions for the NJTP database information reported by community colleges, the amount reported for withholding tax is "*current fiscal year withholding.*" The amount reported for total withholding tax should be the "*dollar amount of state withholding payment received from the business from project commencement through the end of the reporting fiscal year.*"

Withholding tax and total withholding tax amounts were not consistently reported by community colleges and are not consistent within the NJTP database. It is not reasonable for the amount of withholding tax received for a single fiscal year to exceed the amount of total withholding tax received since commencement. However, the withholding tax amounts in the fiscal year 2008 database exceed the total withholding tax for ICCC, as follows:

- The withholding tax amount column total for ICCC is \$67,289,588 while the total withholding tax amount column total is only \$8,350,258. The difference primarily consists of \$62,727,023 erroneously reported by ICCC in the withholding tax amount column for an American Sports International, Inc. project while the total withholding tax amount column includes only \$270,198. The total training certificates issued for the project is reported as \$355,000.
- According to the NJTP database definitions, property tax means "*dollar amount of property tax payments received from the business as of the end of the reporting fiscal year*" and total property tax means the "*dollar amount of property tax payment received from the business from project commencement through the end of the reporting fiscal year.*"

Property tax and total property tax amounts were not consistently reported by community colleges and are not consistent within the NJTP database definitions. It is not reasonable for the amount of property tax received for a single fiscal year to exceed the amount of total property tax. However, we identified:

- Total property tax as of June 30, 2008 since commencement was reported by NIACC and Iowa Lakes Community College (ILCC) as \$0 while the property tax for fiscal year 2008 was reported by the 2 community colleges as \$2,089,284 and \$417,227, respectively.
- EICC erroneously reported \$24,909,250.00 of total property tax related to a completed project with a training certificate of \$1,795,000. Based on a total of \$326,475 reported in the fiscal year 2008 NJTP database for total withholding credits, it appears the total property tax should be approximately \$1,468,525.

We also identified several other inconsistencies in the amount of property tax reported in the database. Including the 2 community colleges mentioned previously with no property tax reported, 6 of the 15 community colleges reported amounts of property tax for a fiscal year that exceed the total property tax reported.

- DED does not include in the electronic form and community colleges do not annually report the following items required by *Code* section 403.21:
  - Specific description of training conducted and
  - Median wage of employees in the new jobs in each project.
- DED does not require community colleges to report sufficient information to identify:
  - Whether excess funds exist for completed projects and
  - The composition of any excess funds, such as withholding tax and property tax, and what the excess funds were used for.

DED needs sufficient information regarding excess funds remaining after training certificates have been paid to monitor whether withholdings and property tax amounts are appropriate and excess funds are properly remitted to the State or counties.

In addition, NJTP database definitions, such as for withholding tax, total withholding tax, property tax and total property tax, may not be clear enough to ensure accurate reporting by the community colleges, as evidenced by previous examples of inconsistent and inaccurate information reported. Consistency and accuracy of reporting of NJTP information by community colleges may improve if database definitions are clarified when misunderstandings occur and are communicated by DED to community colleges, including a summary of why accurate and consistent reporting is important.

As previously stated, we did not review all data in the database. However, we believe it is likely other errors exist in the database since DED does not verify the information reported by community colleges. Findings regarding NJTP database errors, data that is not reasonable and other related concerns are summarized in **Finding I.**

**DED monitoring and reporting** – As previously stated, DED relies on the community colleges to appropriately administer and monitor NJTP activity and does little to monitor whether community colleges comply with NJTP requirements found in the *Code of Iowa* and administrative rules. While the administrative rules require the community colleges to monitor NJTP activity established by agreements with participating businesses, DED has not provided the community colleges with guidance on the extent of monitoring procedures to be completed to determine compliance with NJTP agreements, laws and administrative rules.

An annual report is completed by DED as required by section 15.113 of the *Code of Iowa* to provide the Governor and the Legislative Services Agency (LSA) a summary of each fiscal year's NJTP activity. The DED annual report, entitled "Business Training Services Annual Report" (annual report), summarizes NJTP and other similar programs' activity. The source of information used by DED to create the annual report is the NJTP database.

**Table 13** summarizes fiscal year 2004-2008 reporting year information typically included in the annual report completed by DED, including items such as the number of NJTP projects, total amount of training certificates sold and planned and highest number of new jobs.

**Table 13**

		<b>Reported by DED for fiscal years 2004 - 2008</b>				
<b>Area</b>	<b>Community College</b>	<b>Number of projects</b>	<b>Total training certificates sold</b>	<b>Planned number of new jobs</b>	<b>Highest number of new jobs</b>	<b>Actual number of new jobs*</b>
I	Northeast Iowa	56	\$ 13,730,000	1,801	1,550	1,494
II	North Iowa Area	27	6,385,000	1,095	1,354	1,106
III	Iowa Lakes	24	4,950,000	751	759	755
IV	Northwest Iowa	24	9,590,000	1,752	930	113
V	Iowa Central	25	9,555,000	1,428	1,048	962
VI	Iowa Valley	13	4,790,000	968	898	373
VII	Hawkeye	91	16,375,000	2,997	1,905	1,595
IX	Eastern Iowa	93	40,935,000	5,776	4,604	4,583
X	Kirkwood	94	29,623,000	4,423	4,259	3,941
XI	Des Moines Area	133	72,984,500	10,822	8,654	8,639
XII	Western Iowa Tech	14	9,720,000	1,632	2,475	1,426
XIII	Iowa Western	9	3,440,000	557	213	213
XIV	Southwestern Iowa	26	12,155,000	1,636	1,395	1,335
XV	Indian Hills	27	13,070,000	1,815	1,391	1,358
XVI	Southeastern Iowa	16	4,835,000	975	1,388	1,153
<b>Total</b>		<b>672</b>	<b>\$ 252,137,500</b>	<b>38,428</b>	<b>32,823</b>	<b>29,046</b>

\* - Compiled by auditor from the DED NJTP database as of June 30, 2008.

As illustrated by the **Table**, we included the actual number of new jobs created for fiscal years 2004 through 2008, which typically is not reported by DED. The actual number of new jobs reported by community colleges includes the number of jobs at the end of each reporting period. The planned number of new jobs includes jobs participating businesses plan to create while the highest number of new jobs includes the maximum number of jobs created at any point during the 5 fiscal years reported.

We previously identified some errors reported in the fiscal year 2006 annual report. For example, we compared the highest number of new jobs reported by DED for the 538 projects included in the fiscal year 2006 annual report to the actual number of new jobs created for the same projects. In doing so, we identified the number of jobs reported by 5 community colleges for the highest and the actual new jobs were not consistent with DED's database field definitions. The errors were communicated to DED staff and DED agreed the amounts are in error.

According to DED staff, additional detailed information for each NJTP project would be obtained from the community colleges to determine why the highest number of new jobs reported was less than the actual number of new jobs. Also, it is possible other new job information reported by community colleges is not accurate. The total number of new jobs reported by community colleges for fiscal years 2004 through 2008 included in **Table 13** appear reasonable because errors similar to those identified in the fiscal year 2006 annual report were not apparent based on comparing the totals of highest to actual number of new jobs. While some improvement in the reasonableness of new job numbers reported was identified, DED needs to expand and improve its procedures. Findings regarding lack of DED monitoring and analysis of new jobs created are summarized in **Finding J**.

## A Review of the Iowa Industrial New Jobs Training Program

While information reported by DED in the annual reports is important, the annual report does not include sufficient information to evaluate whether the purpose of NJTP is being met. Also, information reported is not verified for accuracy and completeness. It is essential for community colleges and DED staff to verify, summarize, analyze, evaluate and report the actual number of new jobs created compared to new jobs planned for all completed projects for each community college to determine whether the NJTP purpose has been met and the extent of the program's success. Accurate planned and actual number of new jobs created for completed projects are needed to correctly calculate new job creation success rates.

Specifically, DED does not:

- Monitor whether the number of new jobs created was appropriate under NJTP projects and the new jobs created are the types of jobs specified in NJTP agreements.
- Track and analyze new jobs created and calculate new jobs creation success rates each fiscal year and following completion of training under NJTP agreements to help evaluate the success of NJTP.
- Complete an evaluation of and report on the overall and individual community colleges' NJTP success.

Findings regarding the DED annual report are summarized in **Finding K**.

**Status of projects** - The status of all projects established by NJTP agreements with the community colleges since inception through June 30, 2006 is summarized in **Table 14**.

**Table 14**

Area	Community College	Currently receiving funding	Completed and closed	Completed but in repayment status	Defaulted	Total projects	Default rate
I	Northeast Iowa	63	5	102	8	178	4.5%
II	North Iowa Area	27	46	33	7	113	6.2%
III	Iowa Lakes	9	56	13	2	80	2.5%
IV	Northwest Iowa	21	-	33	-	54	-
V	Iowa Central	16	48	25	-	89	-
VI	Iowa Valley	32	59	28	-	119	-
VII	Hawkeye	87	76	10	3	176	1.7%
IX	Eastern Iowa	59	139	73	18	289	6.2%
X	Kirkwood	62	209	30	-	301	-
XI	Des Moines Area	55	277	59	-	391	-
XII	Western Iowa Tech	36	55	-	-	91	-
XIII	Iowa Western	27	56	9	-	92	-
XIV	Southwestern Iowa	2	54	35	-	91	-
XV	Indian Hills	19	28	15	3	65	4.6%
XVI	Southeastern Iowa	17	45	7	-	69	-
Total		532	1,153	472	41	2,198	1.9%

Source: Community colleges' fiscal year 2006 Auditors' Reports and NJTP staff of certain community colleges, as necessary.



Based on a compilation of default data included in the community colleges' audit reports and information obtained from NJTP staff, participating businesses have defaulted on a combined total of at least 41 NJTP agreements since inception through June 30, 2006. As illustrated by the **Table**, only 6 of the 15 community colleges reported defaults, ranging from 2 for ILCC to a high of 18 for EICC. The highest default rates of 6.2% were identified for NIACC and EICC. No defaults were reported by 9 community colleges. However, some community colleges' staff responsible for administering NJTP have not consistently reported defaults per notes to financial statements of the community colleges' audit reports and discussions with DED staff. Therefore, there is no assurance the 41 defaults summarized in the **Table** is a complete population.

Also, DED staff we spoke with were not aware of the 41 defaults summarized in the **Table**. As mentioned previously, community colleges are supposed to promptly report defaults when they occur and report whether a project is in default each fiscal year while reporting NJTP information to DED. However, a summary of the default information contained in the NJTP database since inception through fiscal year 2008 shows only 1 default.

DED does not review NJTP information reported in community colleges' audit reports. In addition, DED does not have any assurance the default status reported electronically each fiscal year by community colleges for inclusion in the NJTP database is accurate since the information is not verified by DED. Findings regarding lack of default monitoring by DED are summarized in **Finding J**.

### **Department of Revenue**

The Compliance Division of Revenue is responsible for tracking and monitoring new jobs withholding credits and supplemental new jobs withholding credits. As mentioned previously, prior to January 2005, Revenue did not verify new jobs withholding credits and did not compare the information submitted by participating businesses and community colleges unless a business requested a refund. In addition, little was done by Revenue to enforce timeliness, consistency and accuracy of NJTP reports required to be submitted by community colleges. As a result, incorrect amounts of new jobs withholding credits may have been reported in the past by participating businesses and community colleges, but a system was not in place to identify errors and ensure any errors were corrected.

However, according to Revenue staff we spoke with, significant improvements in tracking and monitoring new jobs withholding credits have been implemented by Revenue since January 2005. For example:

- A new withholding system which tracks new jobs withholding credits reported by participating businesses on withholding returns was implemented.
- Community colleges are now required to submit quarterly electronic reports documenting all new jobs withholding tax payments received from participating businesses.
- Revenue now manually compares and verifies the accuracy and appropriateness of new jobs withholding amounts included in withholding reports within the withholding system to amounts reported by community colleges.

While tracking and monitoring has improved, Revenue staff we spoke with believe there are still issues which need to be resolved to allow further improvement in tracking and monitoring of new jobs withholding credits. Specifically:

- Many of the difficulties with tracking and monitoring new jobs withholding credits result from participating businesses' using third party payroll companies which do not complete procedures necessary to ensure amounts claimed are accurate. The accuracy of withholding tax amounts remitted to community colleges and reported by participating businesses on

quarterly withholding returns would improve if participating businesses were required to use compliant payroll services.

- Community colleges allow participating businesses to “catch up” on new jobs withholding tax payments which were allowed to slip into arrears. Allowing participating businesses to slip into arrears means participating businesses must later remit higher withholding tax amounts related to new jobs to community colleges and claim the higher amounts on withholding returns in order to make up for previous underpayments and reporting of withholdings. Some businesses use payroll services and, according to Revenue staff, some of the payroll service companies do not consistently report new jobs withholding tax in appropriate time periods and slip into arrears. This practice makes it difficult for Revenue to effectively track and monitor whether new jobs withholding credits claimed are appropriate and accurate. Also, businesses allowed to be in arrears on new jobs withholding tax payments must file amended withholding returns with Revenue.

Community colleges need to require timely remittance of appropriate withholding tax amounts by participating businesses to allow further improvement of tracking and monitoring the appropriateness of credits claimed under *Code* section 260E.5

Timely remittance and reporting of appropriate and accurate withholding tax amounts related to new jobs would allow Revenue to continue improving tracking and monitoring by making it easier to match withholding tax amounts received with amounts reported if the amounts were the same. This could reduce costs by reducing the time it takes Revenue staff to review and approve amended withholding returns. In addition, this would benefit participating businesses by relieving the burden of filing amended withholding returns. Findings regarding Revenue tracking and monitoring of new jobs withholding credits are summarized in **Finding M**.

Since several problems have been identified regarding the accuracy and reporting of new jobs withholding, it may be advisable to require participating businesses to remit all withholding tax to Revenue for verification of appropriateness rather than directly to community colleges, as is done currently. After verification of appropriateness, withholding tax could be transferred to community colleges. If it is decided to require participating businesses to remit all withholding tax to Revenue, the impact on some of the other items for consideration and recommendations in the findings and recommendations of this report need to be evaluated.

The possibility of importing all relevant data into Revenue’s electronic data warehouse has been considered by Revenue, but no action was taken during the period of our review. While importing all relevant community college reports into the data warehouse would improve the ability to track new jobs withholding credits, many participating businesses continue to inaccurately and incorrectly report their new jobs withholding credits on withholding tax returns. A tracking program utilizing the electronic data warehouse would not be as effective as it should be unless community colleges stop allowing businesses to slip into arrears and catch up on remitting withholding tax payments related to new jobs withholding credits. Inaccurate reporting must be stopped to allow more effective tracking and monitoring by Revenue.

The possibility of imposing penalties on participating businesses and community colleges for incorrect reporting of new jobs withholding credits should be considered to help improve accuracy and timeliness of reporting. Revenue has considered the possibility of penalties but has not formally pursued this. This would require a *Code* revision. Also, cross checking of new jobs withholding credits reported by participating businesses to other State databases should be explored and considered as an additional monitoring tool to help ensure the appropriateness of amounts claimed. The **Items for Further Consideration** section of this report includes a summary of concerns in conjunction with other relevant issues.

## Findings and Recommendations

We reviewed the Iowa Industrial New Jobs Training Program (NJTP) to determine whether the community colleges appropriately administered and complied with NJTP legislation and administrative rules, and whether NJTP was appropriately coordinated and monitored by DED and Revenue. In addition to our review of compliance, monitoring and reporting for NJTP, we reviewed and tested selected NJTP projects administered by 2 community colleges, IVCC and NEICC. Also, we reviewed monitoring and reporting completed by IHCC and KCC since our financial auditors complete financial and compliance audits of those community colleges.

As a result, we identified certain findings and recommendations relating to NJTP that should be considered by the Governor, Members of the General Assembly, DED, DE, Revenue and the 15 community colleges. While some of our findings result from testing at specific community colleges, we believe DED, DE and Revenue, in addition to the community colleges, should consider these findings and recommendations to help improve NJTP.

### **FINDING A – Legislative intent not met**

The purpose of NJTP is for participating businesses to create new jobs and train employees in skills that enhance the State's workforce. However, the legislative intent of NJTP was not met by completed projects when no jobs were created. Based on an analysis of information reported by community colleges for the NJTP database since inception, we identified 228 of 1,182 of completed projects through fiscal year 2008, or 19.3 percent, resulted in no new jobs created rather than the 15,627 jobs planned. Approximately \$41.9 million was spent on the 228 completed NJTP projects which did not produce any new jobs, consisting of:

- Over \$38.5 million of training certificates sold by the 15 community colleges to fund NJTP costs,
- \$2,965,280 of community colleges' administrative costs and
- Approximately \$385,000 of DED administrative fees charged.

However, since DED does not verify NJTP information reported by community colleges and community colleges do not consistently ensure reported job numbers are correct, we do not know if the job numbers reported are accurate. Also, there is no way of knowing whether the reported new jobs created have been retained. Based on information from certain community colleges, some of the businesses reporting no new jobs either closed or filed for bankruptcy.

DED staff believes information reported since inception through fiscal year 1993 by community colleges was not as accurate and complete as information reported after fiscal year 1993. Therefore, we analyzed completed projects funded during fiscal years 1994 through 2008 to identify projects which resulted in no new jobs created to compare to the analysis since inception. As a result, we identified 503 completed NJTP projects during fiscal years 1994 through 2008 with 102 reported as having no new jobs created. Therefore, the purpose of NJTP was not met for 102 of 503, or 20.3 percent, of completed projects during fiscal years 1994 through 2008. The percentage of completed projects resulting in no new jobs being created is essentially the same for both scenarios.

**Recommendation** – DED and the community colleges should work together to develop and implement a plan for improving NJTP to ensure desired results are achieved. For example, DED and community colleges should discuss and consider improvements in:

- Monitoring procedures and periodic evaluation of progress to help ensure NJTP projects result in creating new jobs as intended.

- Comprehensive business screening procedures should be completed by the community colleges and reviewed by DED prior to entering into agreements with businesses, such as comprehensive reviews of businesses' financial condition, long-term plans for growth in Iowa and chances for success in the proposed area of the State.

**FINDING B – Not all NJTP administrative fees collected by DED are used for NJTP**

Since inception of NJTP, DED received approximately \$7.6 million to administer NJTP, based on 1% of the almost \$758.5 million total training certificates reported as sold by community colleges and included in the NJTP database. However, administrative fees received by DED from community colleges are not used exclusively for NJTP responsibilities.

As authorized by *Code* section 15.251, administrative fees received from community colleges during each fiscal year are deposited in the DED Job Training Fund. At the end of each fiscal year, unspent administrative fees are transferred to the Workforce Development Fund established by *Code* section 15.342A. Funds in the Workforce Development Fund are primarily used for administration of the jobs training program authorized by *Code* Chapter 260F while minimal funds are used for DED's limited NJTP duties under *Code* Chapter 260E.

Funds are available for DED to be more involved in monitoring the appropriateness of community colleges' NJTP activity, but DED only completes minimal duties.

**Recommendation** – DED should use available funds to take a more active role in monitoring and reporting NJTP activity of the community colleges as recommended in **Finding J**. An analysis should be completed to evaluate the appropriateness of the 1% administrative fee collected from community colleges. Such evaluation should include any changes made by DED in response to **Finding J**.

## **Community Colleges**

**FINDING C - Excess funds collected**

We identified instances of community colleges collecting withholding tax and incremental property tax in excess of amounts needed to pay principal and interest on training certificates, and most of the excess was transferred to other projects. The transfer and use of the excess funds is not appropriate and does not comply with NJTP *Code of Iowa* requirements.

It is important for community colleges to appropriately account for, allocate, track and monitor the use of funds by funding source so any funds remaining after paying all principal and interest on training certificates may be appropriately remitted to the State Treasurer or to appropriate counties.

**Recommendation** – Community colleges should monitor all funding received from participating businesses and counties for projects under each NJTP agreement to ensure the total amount needed to pay all principal and interest on training certificates is not exceeded. However, if any withholding tax or incremental property tax in excess of amounts needed to pay all principal and interest on the training certificates are identified, the funds should be appropriately allocated and accounted for by funding source and remitted to the State Treasurer and counties, as appropriate. The NJTP agreements and addendums should include clear and specific requirements regarding appropriate use of funds for repayment of training certificates.

### **FINDING D – Transfer of accumulated interest**

We are aware of 2 instances in which community colleges used guidance provided by an attorney as authorization to transfer accumulated interest for closed projects from the designated NJTP accounts maintained by the community college. In the first instance, a total of approximately \$1,350,000.00 was transferred from the community college's NJTP account to its General Fund over the course of 4 fiscal years.

The second community college transferred approximately \$7,375,000.00 from the NJTP account to its Plant Fund during the fiscal year ended June 30, 2008 to help meet building and repair costs.

Because the certificates were paid with funds which would otherwise have been remitted to the State's General Fund or from local tax revenue rather than the accumulated interest, the transfers made by the community colleges effectively appropriate additional funds to the community college by the State or county.

**Recommendation** – The General Assembly should consider whether the community colleges should be allowed to transfer accumulated interest earned on closed projects from the NJTP account in order to use the funds for other purposes of the community colleges. The General Assembly should also consider whether the language found in the *Code of Iowa* establishing the NJTP program should be modified to specifically address allowable and/or unallowable uses for any interest earned on NJTP funds.

### **FINDING E – Planned training not specified in agreement or not specific enough**

Some of the training included in several NJTP agreements reviewed at NEICC and IVCC were subjects which are not specific or exclusive to the new jobs created and, in several instances, included topics generally covered by businesses during employee training regardless of participation in NJTP. Training provided was not applicable to just new jobs. For example, training specified in 6 of the 30 agreements reviewed at IVCC and in 21 of 49 agreements reviewed at NEICC included orientation, leadership development and occupational health and safety.

We also identified 5 of 30 agreements reviewed at IVCC and 11 of 49 agreements reviewed at NEICC did not specify the training planned for the new jobs.

Training included in NJTP agreements and provided to employees by participating businesses and community colleges needs to be specifically relevant and necessary for the new jobs created by project to help ensure the intent of the program is met.

**Recommendation** – Community colleges should ensure training included in NJTP agreements is specifically relevant and necessary for employees in the new jobs created to help ensure the legislative intent of the program is met. Also, community colleges should monitor actual training provided compared to training included in NJTP agreements to ensure compliance of participating businesses prior to reimbursing the businesses for training costs.

### **FINDING F – Community colleges' monitoring needs improvement**

We reviewed community colleges' NJTP monitoring procedures and compliance with relevant *Code of Iowa* sections and administrative rules. As a result, we identified:

**Required monitoring not consistently completed** - Community colleges are not consistently complying with the monitoring system requirements of NJTP administrative rules established by

DED. While community colleges have established a monitoring system for NJTP activity, procedures are not consistently completed by some community colleges to ensure participating businesses' compliance with NJTP requirements contained in the *Code of Iowa*, administrative rules and agreements. Also, the types and extent of monitoring procedures completed by NJTP staff of the 15 community colleges varies from college to college and some were not aware of the annual monitoring requirement contained in the NJTP administrative rules. For example, we identified some community colleges do not consistently:

- Complete on-site monitoring visits of participating businesses each fiscal year to determine compliance with NJTP requirements as required by the administrative rules.
- Obtain and review financial records of participating businesses during on-site visits to determine financial compliance, such as reviewing the allocation and use of funds.
- Require supporting documentation be maintained and submitted by participating businesses, including enough detail to allow community colleges to identify which NJTP projects funds should be allocated to. As a result, it is difficult or impossible for community colleges to sufficiently monitor and evaluate the success of projects, especially when multiple projects are included under a single NJTP agreement.
- Determine whether participating businesses' expenditures submitted for reimbursement are appropriate under the NJTP agreement budget.
- Compare planned new jobs to actual jobs created and determine whether the types of jobs created are appropriate under NJTP agreements.
- Evaluate whether specific projects are effective in creating new jobs, which is essential for determining the success of NJTP agreements.
- Monitor whether job creation goals contained in NJTP agreements have been met.
- Document monitoring procedures completed and results.

**Appropriateness and accuracy of new jobs withholding credits** - Community colleges do not consistently:

- Require and review documentation from participating businesses to support gross wages, including detailed information needed to verify and recalculate new jobs withholding credits.
- Monitor whether participating businesses are claiming new jobs withholding credits only for employees in the new jobs created under NJTP projects. Also, we identified, and Revenue staff we spoke with agreed, in some instances amounts of new jobs withholding tax remitted to community colleges are based on 1.5% of gross payroll for all of the participating businesses' employees, which are subsequently claimed in withholding tax returns, rather than on 1.5% of gross payroll for employees only in the new jobs created. This does not comply with NJTP requirements contained in the *Code* and the NJTP agreements.

It is important sufficient monitoring and recalculation procedures be consistently completed by community colleges to ensure participating businesses do not receive more new jobs withholding credits than is appropriate under the NJTP agreements.

**Timing of new jobs withholding tax remitted** – Revenue staff we spoke with mentioned, and we identified examples of, some community colleges allow participating businesses to slip into arrears on remitting withholding tax related to new jobs and later allow the participating

businesses to “catch up” by subsequently remitting higher withholding tax amounts to make up for amounts which should have been remitted previously. Revenue staff believes this practice makes it extremely difficult to track and monitor the appropriateness and accuracy of new jobs withholding credits claimed on withholding tax returns submitted by participating businesses. In order for tracking and monitoring to be more effective, it is important community colleges do not allow participating businesses to slip into arrears and later catch up on withholding tax remitted for the new jobs.

**Recommendation** – The community colleges should consistently:

- Develop and complete specific comprehensive monitoring procedures each fiscal year to determine participating businesses’ compliance with NJTP requirements.
- Complete on-site monitoring visits of participating businesses each fiscal year to determine compliance with NJTP requirements as required by the administrative rules.
- Obtain and review financial records of participating businesses during on-site visits to determine financial compliance, such as reviewing allocation and use of funds, including but not limited to:
  - Requiring supporting documentation be maintained by participating businesses, including sufficient detail to allow community colleges to identify which NJTP projects funds should be allocated to.
  - Determining whether participating businesses’ expenditures submitted for reimbursement are appropriate under the NJTP agreement budget.
- Continue and improve efforts to ensure obligations under NJTP agreements are met by participating businesses to help mitigate defaults. DED may be able to assist with any necessary negotiations to ensure obligations are met if promptly notified of defaults.
- Educate participating businesses on how to properly calculate new jobs withholdings.
- Not allow participating businesses to slip into arrears and catch up on amounts remitted for new jobs withholdings. This practice makes it extremely difficult for community colleges and Revenue to track and monitor the appropriateness and accuracy of withholding amounts remitted and reported.
- Require participating businesses to submit supporting documentation including, but not limited to, a listing of eligible employee names, federal identification numbers and associated gross wages as related to the new jobs withholding tax remitted. Supporting documentation should:
  - Include appropriate employee information for new jobs created under projects to allow verification only eligible employees participating in new jobs created under NJTP agreements are part of the calculation of new jobs withholding tax.
  - Be specific enough for each NJTP agreement to allow recalculation of new jobs withholding tax remitted to determine whether the correct amount was remitted.
- Review and recalculate amounts of new jobs withholding credits to determine whether amounts claimed and remitted are accurate and appropriate.

- Monitor and evaluate whether new job creation goals for each project under NJTP agreements have been met and compare planned new jobs to actual jobs created and whether the types of jobs created are appropriate under NJTP agreements.
- In conjunction with DED, take proactive steps to help improve the success of NJTP projects to help ensure State funds are effectively used to create new jobs as planned.

### **FINDING G – Community colleges’ reporting needs improvement**

We reviewed community colleges’ compliance with certain NJTP reporting requirements contained in the *Code of Iowa* and administrative rules and identified community colleges do not:

- Promptly notify DED of defaults by participating businesses under NJTP agreements as required by the administrative rules. At least 41 defaults have not been reported to DED by the community colleges.
- Report a specific description of the training conducted and median wage of employees in the new jobs in each project under NJTP agreements as required by section 403.21 of the *Code* to DED since the items are not included in DED’s electronic form.
- Consistently report to Revenue accurate amounts of new jobs withholding credits based on remittances by participating businesses and do not always report the information on a timely basis as required by section 260E.5 of the *Code*.
- Specifically report verifiable amounts of excess funds collected or sufficient information to DED to allow identification of:
  - Whether funds were collected in excess of amounts necessary to pay training certificates,
  - The composition of any excess funds, such as withholding tax and property tax and
  - Whether excess funds have been appropriately remitted to the State or counties.

Based on information currently reported by community colleges to DED, it is not possible to determine whether excess funds are collected and the uses of any excess funds. This further emphasizes the need for withholding tax equal to the new jobs withholding credits be submitted to Revenue for verification of appropriateness and then be transferred to community colleges as appropriate, as summarized in the **Items for Further Consideration** section of this report.

**Recommendation** – The community colleges should:

- Consistently comply with reporting of NJTP default, agreement activity and new jobs withholding credits requirements contained in the *Code of Iowa* and administrative rules, as appropriate.
- Report verified amounts of excess funds collected to DED, including the disposition of any excess funds. The information reported needs to be sufficient to allow specific identification of the composition of any excess funds collected and appropriate disposition of excess funds.



## **Department of Economic Development**

### **FINDING H - Information reported by community colleges is not verified by DED**

DED does not verify whether NJTP information reported by community colleges each fiscal year is appropriate and accurate. Therefore, DED does not know whether information reported by community colleges is valid and reliable. Valid and reliable data is essential for appropriate evaluation and reporting of NJTP activity. DED believes verification of data reported by community colleges is beyond their coordinating responsibilities required by the *Code*.

**Recommendation** – DED should verify, review and analyze NJTP information reported by community colleges for inclusion in the NJTP database each fiscal year and follow-up on information which is not accurate or does not appear to be appropriate. It is important to ensure data used by DED to monitor NJTP and report to the Governor and General Assembly each year is appropriate, accurate and reliable to allow more meaningful and accurate assessments of NJTP success.

### **FINDING I – Other NJTP database concerns**

We summarized and analyzed various information contained in the NJTP database and compared the information to other related reports, as appropriate. As a result, we identified several database errors, data that does not seem reasonable and other concerns regarding the validity and reliability of data reported by community colleges. For example, we identified:

#### **Errors and data that is not reasonable**

- Some of the new job numbers reported to DED by IVCC, ICC, Iowa Western Community College (IWCC), Southwestern Iowa Community College (SWICC) and SEICC include errors. We informed DED staff of the probable errors and they agree job information reported by the 5 community colleges must not be accurate.
- A total combined difference of \$13.1 million for 12 community colleges with differences in total principal balances outstanding for training certificates sold when comparing amounts included in the NJTP database and amounts reported in the 15 community colleges' audit reports. Only 3 community colleges, NIACC, WITCC and IHCC, include principal balances outstanding which agree between the two sources of information.

**Required items not reported** - The electronic form created by DED for community colleges' reporting of NJTP activity each fiscal year does not include, and community colleges have not otherwise reported, the following items each fiscal year, as required by Code section 403.21:

- Specific description of training conducted, and
- Median wage of employees in the new jobs in each project.

**Definitions not clear** - DED's definitions for withholdings, total withholdings, property tax and total property tax may not be clear enough to ensure accurate reporting by community colleges since community colleges have not consistently interpreted and reported information as intended by DED. We identified several examples of inconsistent information in the NJTP database, including reporting amounts for a current fiscal year while also reporting \$0 for total since inception and vice versa, for various categories within the database.

The examples of errors, data that is not reasonable and other concerns identified and summarized in this Finding further emphasize the importance and need for DED to verify the

appropriateness and accuracy of information reported by community colleges as recommended in **Finding H**. DED does not have reasonable assurance any information reported by community colleges each fiscal year is appropriate and accurate. Also, we did not review and verify 100% of information in the NJTP database, so it is probable more errors exist.

**Recommendation** – DED should obtain and review:

- Additional detailed information related to planned, highest number and actual new jobs for each NJTP agreement entered into by the community colleges to identify and correct any errors in information reported by the community colleges.
- Copies of audit reports for all 15 community colleges each fiscal year to review NJTP information for appropriateness and to identify areas of concern needing additional follow-up and correction. NJTP information reported in the audit reports should be compared to verified information included in the NJTP database and differences identified should be appropriately resolved.
- Financial records of the community colleges to identify whether excess funds remain under NJTP agreements for which training certificates have been paid and whether relevant excess funds have been remitted to the State or counties, as appropriate.

Also, DED should:

- Review, clarify and revise NJTP database field definitions and associated electronic reporting forms to provide community colleges with clearer definitions to help ensure consistent and appropriate reporting.
- Revise the electronic form to include fields for specific description of training conducted and median wage of employees in the new jobs in each project.
- Require community colleges to report the composition and disposition of any excess funds.
- Periodically communicate written guidance to community colleges to stress the importance of accurate and consistent reporting of all NJTP information each fiscal year, including examples of proper reporting based on improved database definitions and revised electronic forms.

## **FINDING J - DED monitoring needs to be expanded and improved**

We reviewed DED's monitoring procedures and compliance with relevant *Code of Iowa* sections and administrative rules. As a result, we identified:

**Community colleges' compliance with administrative rules not monitored** - DED does not monitor whether community colleges comply with NJTP administrative rules. For example, community colleges are required by administrative rules to promptly notify DED of any defaults associated with participating businesses. However, according to DED staff we spoke with, community colleges did not promptly notify DED of any defaults and DED was not aware of at least 41 defaults by participating businesses on projects under NJTP agreements.

Also, DED has not provided community colleges with guidance regarding the extent and types of monitoring of participating businesses which should be completed, including on-site visits and review of information received from participating businesses. DED is not currently required to provide additional guidance, but it may enhance the monitoring completed by community colleges. Findings identified regarding community colleges' monitoring are summarized in **Finding F**.

**Lack of monitoring community colleges' administrative allowance rates** - DED does not complete comprehensive analysis and monitoring of whether actual administrative allowance rates for completed projects are more or less than approved administrative allowance rates for community colleges each fiscal year. Based on a detailed analysis, we identified:

- The average actual administrative allowance rate was 2% less than the average of the approved maximum administrative allowance rates for community colleges during fiscal years 2002 through 2006.
- More than \$35,500 in excess of approved allowable rates for fiscal year 2006 actual administrative costs was charged by 5 community colleges on 13 NJTP projects. The highest actual administrative rate identified during fiscal year 2006 is 31.30% for a project at Indian Hills Community College and the next highest rate is 29.45% for a project at DMACC. Allowable rates were exceeded by a range of .01% to 13.33% by the 5 community colleges.

Also, as reported in **Table 2**, the average actual administrative allowance rate was 2.6% less than the average of the approved maximum administrative allowance rate for community colleges during fiscal years 2004 through 2008.

**Community colleges' administrative allowance rates may not be appropriate** – Community colleges' use of a straight percentage, as determined by DE and approved by DED, to calculate total NJTP administrative funds each fiscal year may not be reasonable. Currently, the amount of administrative funds allowed for community colleges increases in direct proportion to the amount of training certificates sold. The average approved maximum administrative allowance rate was 18.14% and a total of more than \$38.4 million of administrative costs was reported for all community colleges combined during fiscal years 2004 through 2008. It does not seem reasonable the duties involved with projects under each NJTP agreement increase in proportion to the amount of funding for each agreement. Many administrative duties performed by community colleges do not vary based on increased quantities of training certificates and higher dollar amounts of training certificates sold.

**Lack of monitoring and analysis of new jobs created** - DED does not:

- Monitor whether the number of new jobs created by projects is reasonable and new jobs created include the types of jobs specified in the NJTP agreements.
- Complete tracking and analysis of new jobs created and calculate new jobs creation success rates each fiscal year and following completion of training under NJTP agreements to help evaluate the success of NJTP.

It is essential DED summarize, analyze and evaluate the actual number of new jobs created compared to new jobs planned for all completed projects for each community college to determine whether the NJTP purpose has been met and the extent of success.

**DED responsibilities for NJTP** - We spoke with various DED staff to discuss their role and responsibilities for NJTP. DED staff we spoke with believe they are fulfilling the *Code* requirements for coordinating NJTP. We also discussed whether DED should take a more active role in monitoring NJTP activity at community colleges to ensure information reported by community colleges is appropriate and accurate. DED staff believes section 260E.7 of the *Code of Iowa* would need to be revised to allow an increase in responsibilities, such as verifying information reported by community colleges and monitoring whether community colleges comply with NJTP requirements.

**Recommendation** – DED should:

- Take a more active role in coordinating, monitoring and ensuring compliance of community colleges with NJTP requirements contained in the *Code of Iowa* and administrative rules by:

- Periodically emphasizing existing monitoring requirements to community colleges.
- Working with community colleges to develop more thorough and effective monitoring procedures to be completed each fiscal year, including on-site monitoring visits. Based on results of a collaborative effort, DED should develop and provide additional guidance to provide a uniform approach and understanding of NJTP to enhance monitoring by community colleges.

For example, DED should develop and provide to community colleges an on-site monitoring procedures guide, including descriptions and examples regarding the types and extent of comprehensive procedures to be completed each fiscal year to ensure participating businesses' compliance with *Code of Iowa* requirements, administrative rules, NJTP agreements and associated training plans. This would help improve the consistency and effectiveness of community colleges' monitoring.

- Developing and adopting in administrative rules specific due diligence procedures required of community colleges for monitoring and managing defaults on NJTP agreements by participating businesses.
- Consult with the Governor's Office and the General Assembly and pursue legislative changes necessary to clearly define and increase DED's oversight responsibilities for NJTP, including, but not limited to:
    - Requiring DED to verify information reported by community colleges each fiscal year,
    - Monitoring whether community colleges comply with NJTP requirements and agreements, and
    - Evaluating and reporting on NJTP success overall and for each community college, including new job creation success rates.
  - Complete an analysis each fiscal year of all community colleges' completed projects and evaluate overall NJTP success. Based on evaluation results, recommendations to improve the effectiveness and success of NJTP should be developed and communicated, as appropriate, to community colleges. To help evaluate NJTP success, DED should:
    - Develop a method and process in conjunction with community colleges to periodically calculate and analyze new job creation success rates based on a comparison of actual new jobs created to new jobs planned to monitor the progress and success of each NJTP project.
    - Review community colleges' audit reports each fiscal year to help identify and monitor defaults and other NJTP activity where improvement is needed. Also, DED should follow-up to determine whether NJTP findings reported in audit reports are appropriately resolved by community colleges.
  - In conjunction with DE, analyze and monitor whether actual administrative allowance rates are more or less than approved administrative allowance rates for community colleges each fiscal year. If approved rates are exceeded by community colleges, DED should ensure

sufficient documentation was maintained to support administrative costs charged and review the appropriateness of the costs charged. If actual administrative rates of community colleges are consistently lower than approved rates in future fiscal years, administrative allowance rates should be reduced, as appropriate.

**FINDING K - DED annual report needs to be based on verified information**

The annual report prepared by DED does not include sufficient information to evaluate whether the purpose of NJTP has been met. Also, the annual report does not include an evaluation of overall and individual community colleges' success in meeting the NJTP purpose and goals. While information reported by DED in the annual report is important, it does not include the actual number of new jobs created for completed projects, which is necessary for calculating and evaluating NJTP success.

However, information used to calculate and evaluate NJTP success must be valid and reliable to be meaningful. Therefore, it is essential information reported by community colleges and used to evaluate NJTP success be verified.

**Recommendation** – DED should:

- Ensure data reported by community colleges and included in the NJTP database is accurate prior to reporting information to the General Assembly in the “Business Training Services Annual Report”.
- Analyze, evaluate and report new job creation success rates for all completed projects based on verified information and explore and consider other factors impacting new job creation success rates in calculating and reporting new job creation success rates to help assess whether the legislative intent of the program is met. Also, factors such as job displacement, new jobs resulting from companies relocating from other states and whether the same new jobs reported by community colleges for NJTP have been reported for other similar programs should be considered while analyzing and evaluating NJTP.

**FINDING L - Definition of a project and addendum**

We spoke with DED staff to discuss whether the practice of establishing addendums to original NJTP agreements meets the definition of a new project or is just an extension of the original project under existing NJTP agreements. DED staff agrees the definition of a project contained in section 260E.2 of the *Code of Iowa* is not clear regarding definition of projects and whether addendums establish new projects or are additions to existing agreements.

Addendums to NJTP agreements reviewed at IVCC and NEICC were generally not as specific as the original NJTP agreements regarding funding sources to be used for repayment of training certificates. Also, we identified some examples of community colleges continuing to receive and use incremental property tax as a funding source under NJTP agreements, even when it was not specifically included in the addendums.

**Recommendation** - DED should:

- Revise NJTP administrative rules to more specifically define a project, including whether an addendum establishes a new project or is an extension of an existing project.
- Provide more specific guidance to community colleges regarding the types and extent of funding sources which may be used to provide for repayment of training certificates and other NJTP costs.
- Require community colleges to clearly define in NJTP agreements and addendums the appropriate use, restrictions and disposition of any excess withholding tax and incremental property tax collected.

**Iowa Department of Revenue**

**FINDING M – Tracking and monitoring new jobs withholding credits**

New jobs withholding credits are the most significant funding source for NJTP. However, prior to January 2005, Revenue had little assurance amounts of new jobs withholding credits claimed by participating businesses on withholding tax returns and reported by community colleges were appropriate and accurate because a comprehensive integrated system was not in place to track and monitor credits.

Since January 2005, Revenue has made improvements in its ability to track and monitor new jobs withholding credits by implementing a new comprehensive withholding system. Revenue verifies the accuracy and appropriateness of new jobs withholding credits included in withholding tax returns within the new system and compares the credits to amounts reported by community colleges.

While tracking and monitoring by Revenue has improved, there are still issues that need to be resolved to provide further improvement in tracking and monitoring of new jobs withholding credits, as follows.

- Many of the difficulties with tracking and monitoring new jobs withholding credits result from participating businesses' using third party payroll companies which do not complete procedures necessary to ensure amounts claimed are accurate. The accuracy of withholding tax amounts remitted to community colleges and reported by participating businesses on quarterly withholding tax returns would improve if participating businesses were required to use compliant payroll services.
- Community colleges allow participating businesses to “catch up” on new jobs withholding tax payments which were allowed to slip into arrears. Allowing participating businesses to slip into arrears means participating businesses must later remit higher withholding tax amounts related to new jobs to community colleges and claim the higher amounts on withholding tax returns in order to make up for previous underpayments and reporting of withholding tax. This practice makes it difficult for Revenue to effectively track and monitor whether new jobs withholding credits claimed are appropriate and accurate.

Community colleges need to require timely remittance of appropriate withholding tax by participating businesses. Timely remittance and reporting of appropriate and accurate withholding tax amounts related to new jobs would allow Revenue to continue improving tracking and monitoring and would avoid additional time required of Revenue to review and approve amended withholding tax returns.

**Recommendation** – Revenue should continue:

- Developing and improving procedures to track and monitor the appropriateness and accuracy of new jobs withholding credits.
- Reviewing participating businesses' withholding tax returns to determine whether correct amounts have been claimed.
- Comparing withholding tax returns submitted by participating businesses to reports submitted by community colleges to ensure amounts agree.

## Items for Further Consideration

In addition to the findings and recommendations, our report identified several items which should be considered by the General Assembly to help ensure NJTP is administered in a manner which is as effective as possible. The General Assembly should consider:

- Whether a provision to help ensure new jobs promised by participating businesses are actually created and retained should be established in the *Code of Iowa*. Currently, there is no mechanism to measure the long term benefits of the program. Requirements for maintaining new jobs created for at least 5 years and for participating businesses to be held liable for a portion of new jobs withholding credits claimed for each project should be included in the provision. Also, if the provision is established, it should be included in each future NJTP project agreement.
- Whether withholding tax for the new jobs withholding credits should be remitted to Revenue and then transferred to community colleges after Revenue verifies the appropriateness of amounts remitted by participating businesses. Since several problems have been identified regarding the accuracy and reporting of new jobs withholding credits, it may be advisable to require participating businesses to remit all related withholding tax to Revenue for verification of appropriateness rather than directly to community colleges, as is done currently. After verification of appropriateness, withholding tax could be transferred to community colleges. If it is decided to require participating businesses to remit all withholding tax to Revenue, the impact on some of the other items for consideration and recommendations in the findings and recommendations of this report need to be evaluated.
- The possibility of importing all relevant new jobs withholding credits data into Revenue's electronic data warehouse. Revenue staff has considered the option of importing all relevant data into Revenue's electronic data warehouse, but no action has been taken. This may require a significant time investment but would further enhance Revenue's efforts in tracking and monitoring new jobs withholding credits. However, the concerns summarized in **Finding M** must be corrected by community colleges and participating businesses to allow a tracking program utilizing the electronic data warehouse to be most effective.

In addition, consideration should be given to exploring possible cross-checking of withholding tax information related to new jobs withholding credits to other databases of the State, such as data of Iowa Workforce Development, to further improve monitoring of the appropriateness and accuracy of amounts claimed by participating businesses. In addition, the possibility of imposing penalties on participating businesses and community colleges for incorrect reporting of new jobs withholding credits should be considered to help ensure the accuracy and timeliness of reporting. This would require a *Code* revision.

- Whether the community colleges should be allowed to transfer accumulated interest earned on closed projects from the NJTP account in order to use the funds for other purposes at the community colleges. The General Assembly should also consider whether the language in the *Code of Iowa* establishing the NJTP program should specifically address allowable and/or unallowable uses for accumulated interest.
- Whether to continue or establish a sunset provision for the maximum \$4 million per year transfer by Revenue to the Workforce Development Fund from the State's General Fund. The amounts transferred to the Workforce Development Fund are primarily used to fund the job training program under *Code* Chapter 260F.



In accordance with section 422.16A of the *Code of Iowa*, when businesses complete repayment obligations for an NJTP project, the community college which administered the project is to report to DED the amount of withholding tax paid by the business to the community college during the final 12 months of withholding tax payments. DED is to notify Revenue of the final 12 month withholding tax amount reported by the community colleges for all completed projects. Revenue transfers 25% of the total amount to the Workforce Development Fund established by *Code* section 15.342A each quarter for a period of ten years. The amount transferred from the State's General Fund by Revenue is limited to \$4 million per year by the *Code* since fiscal year 2002.

However, additional funds will continue to be transferred from the State's General Fund to the Workforce Development Fund each year since the *Code* authorizes the annual transfer. The March 2009 Tax Credits Contingent Liability Brief submitted by Revenue to the Revenue Estimating Conference shows the history of amounts transferred and forecast amounts of tax credit contingent liabilities, ranging from approximately \$42.3 million for fiscal year 2009 to approximately \$44.9 million for FY 2013. Currently, similar totals may be transferred each year through fiscal year 2019.

- Further study of NJTP and other economic incentive programs, including, but not limited to, identification of whether the jobs created under NJTP are used by businesses to apply for and receive funds under other similar programs in addition to receiving NJTP funds. Also, the study should identify what program is creating the new jobs. In addition, consideration should be given to establishing and enforcing penalties for any non-compliant businesses if using the same new jobs created for multiple programs to receive funding or report success is identified as a frequent and significant practice.
- Whether a mechanism or process to document the amount of State and local economic development incentive funds each participating business receives should be implemented. If so, the associated numbers of jobs planned to be created or retained need to be consistently documented and verified. The State has several different economic development incentive packages available for businesses to stay in or relocate to the State. Some of the economic development incentive packages result in funding linked to specific creation or retention of jobs.

However, it appears there is not a comprehensive mechanism in place for the State to document the amount of State and local funding provided to businesses and determine if more than one funding source is linked to the creation or retention of the same jobs. Also, decisions regarding the use of NJTP funds and other similar funds are being passed down to the community colleges rather than being made at the State level. Therefore, there may be a lack of coordination with other incentive programs offered by the State.

## **A Review of the Iowa Industrial New Jobs Training Program**

## **Schedules**

A Review of the Iowa Industrial New Jobs Training Program

New Jobs Withholding Credits Reported by Community Colleges  
Fiscal Years 1984 through 2008

		<b>Fiscal Year</b>		
<b>Area</b>	<b>Community College</b>	<b>Total 1984 through 2003</b>	<b>2004</b>	<b>2005</b>
I	Northeast Iowa	\$ 20,103,230	962,768	938,162
II	North Iowa Area	14,367,340	1,143,456	781,493
III	Iowa Lakes	4,559,055	427,638	451,712
IV	Northwest Iowa	10,817,072	668,923	173,552
V	Iowa Central	5,961,359	73,636	1,055,046
VI	Iowa Valley	16,084,141	454,603	1,100,439
VII	Hawkeye	22,730,595	922,112	1,603,430
IX	Eastern Iowa	48,999,800	4,104,489	2,864,848
X	Kirkwood	62,971,230	2,103,658	2,908,820
XI	Des Moines Area	76,524,972	1,021,471	14,852,269
XII	Western Iowa Tech	17,048,999	-	3,074,387
XIII	Iowa Western	18,723,409	-	-
XIV	Southwestern Iowa	1,362,536	213,917	283,195
XV	Indian Hills	16,275,080	1,321,681	1,137,825
XVI	Southeastern Iowa	6,294,544	454,415	283,257
Total		\$ 342,823,362	13,872,766	31,508,435

Source: NJTP database as of June 30, 2008

<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>Total</b>
-	1,439,316	-	23,443,476
447,152	-	69,367	16,808,809
531,604	-	34,668	6,004,677
713,784	131,794	2,355	12,507,480
910,818	241,618	107,781	8,350,258
42,983	-	-	17,682,166
348,971	301,267	8,392	25,914,767
1,882,563	950,042	426	58,802,167
2,031,431	3,355,221	1,061,207	74,431,567
2,603,952	2,022,050	-	97,024,713
141,473	321,790	-	20,586,649
784,214	14,681	43,398	19,565,703
-	673,853	2,565	2,536,067
519,002	475,944	-	19,729,532
523,976	97,408	156,998	7,810,597
11,481,924	10,024,983	1,487,158	411,198,628

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A Review of the Iowa Industrial New Jobs Training Program

Use of Amounts Transferred to the Workforce Development Fund  
Fiscal Years 2000 through 2008

<b>Fiscal Year</b>	<b>Iowa Training Fund Administration</b>	<b>Iowa Training Fund Retraining</b>	<b>Targeted Industry Training</b>	<b>Apprenticeship</b>
2000	\$ 535,000	5,324,263	703,094	733,302
2001	790,000	5,619,125	700,000	1,080,659
2002	-	3,000,000	-	1,000,000
2003	-	3,922,719	-	1,000,000
2004	270,500	3,000,000	-	1,000,000
2005	286,350	3,000,000	-	1,000,000
2006	400,000	3,220,300	-	1,000,000
2007	250,000	3,300,000	-	1,000,000
2008	325,000	3,350,000	-	1,000,000
Total	\$ 2,856,850	33,736,407	1,403,094	8,813,961

<b>Innovative Skills Development</b>	<b>DED Sponsored Business Network</b>	<b>Total</b>
336,468	993,464	8,625,591
-	300,000	8,489,784
-	-	4,000,000
-	-	4,922,719
-	-	4,270,500
-	-	4,286,350
-	-	4,620,300
-	-	4,550,000
-	-	4,675,000
336,468	1,293,464	48,440,244

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Iowa Industrial New Jobs Training Program

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